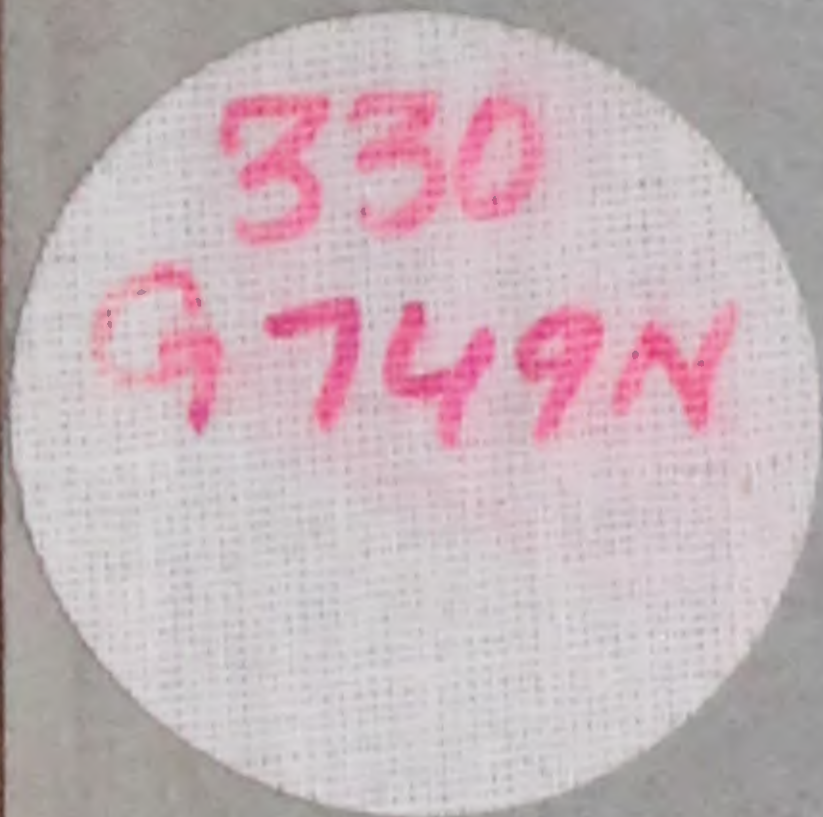


# A NEW HIGHER SECONDARY ECONOMICS

PART II.

R. D. Goyal, M.A., B.T.



PITAMBAR BOOK DEPOT

694, Chandni Chowk,  
DELHI.





*Written in accordance with the new syllabus*

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# A NEW HIGHER SECONDARY ECONOMICS

PART II.

*for*  
HIGHER SECONDARY CLASSES

*By*  
R. D. Goyal, M.A., B.T.

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## PREFACE.

This book has been written in accordance with the syllabus prescribed by the Punjab University for Paper II in the subject of Economics for the Higher Secondary Examination. For the Higher Secondary students the subject of Economics is a new one as they have little knowledge of this subject in the elementary classes, and they begin studying this subject at the Higher Secondary level. I have therefore endeavoured to deal with the topics logically and tried to make the subject easy and simple. Most recent information and views on various topics have been incorporated in the book. At the same time care has been taken that the book does not become very bulky leaving little taste for the beginner in the subject.

This book has been written from the view point of a student. No pains have been spared to make the book in all respects most suitable to those for whom it is meant. Latest statistics have been given in abundance to make the points clear and easily understandable. Chapters on India's Five Year Plans and Community Development Projects have been incorporated to show the change that is being brought about by planning in Free India. Questions and Projects have been added at the end of each chapter. When the student will attempt to answer these questions, he will practically revise the whole chapter.

No efforts have been spared to make the book free from errors and printing mistakes.

Suggestions for further improvements will be thankfully received and acknowledged.

**Author.**



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## CHAPTER I.

### Physical Environments and Natural Resources.

*Importance of Physical features and Natural resources—*Physical features and natural resources of a country play a very important part in shaping the economic life of a country. Even about a small country like England, Nicholson observes, "in spite of the predominance of her trade and her manufactures, natural conditions are of primary importance. The coast-line and rivers, the proximity of rich coal and iron fields, the temperate, moist climate and the fertility of the soil are still the foundations of the wealth of the nation." The physical environments are the basis of all economic activity. Fertile soil and rich minerals are the potential wealth of a country and they are a key factor in the economic development of a country. If these gifts of nature are used effectively by the people of a country, it leads to the development of their industries, raising of their national income and improving of their living standards. In order to understand her economic position, we first study the physical environments and natural resources of our country.

#### Physical Features.

*Size and Location—*Before partition, India comprised an area of about 15,75,000 sq. miles which is equal to that of whole of Europe excluding Russia. Now, the area of Indian Union is 12,69,640 sq. miles. Even after partition, it is not an exaggeration to call her a sub-continent. It is interesting to note that India is twelve times as large as Great Britain.

India occupies a favourable situation in the centre of South Asia. She commands trade routes running in all directions, on the one side to Far Eastern countries, Australia and New Zealand and on the other, to the various countries of Europe. For purposes of international trade, she is favourably located. She is surrounded by sea on three sides and has a very extensive coastline. But her coast is rather flat and there are very few natural harbours.

*Natural Divisions—*India has three well-marked divisions viz. (i) The Himalayan ranges overlooking the Gangetic



plain, (ii) the Indo-Gangetic plain between the Himalayas and the Deccan Peninsula, and (iii) the Deccan Peninsula separated from the Northern India, by the Vindhya and Satpura ranges.

(1) *The Himalayas*.—They are the highest mountains in the world. They are about 1250 miles in length and 100-250 miles in breadth. They are the most striking feature of the geography of this country. They act as a climatic barrier and stop the cold winds coming from the side of the north and tone down the temperature of the plains. They are a perennial source of most of the big rivers of Northern India. They help in causing rains over the plains of Northern India and endow its soil with inexhaustible fertility. Large areas of the Himalayan ranges are covered with valuable forests and pastures. In their bosom lie the beautiful places like the Valley of Kashmir which is called heaven on earth. Thus apart from their influence on the physical condition of the country, they exercise a dominating influence on the economic and moral life of the people.

(2) *The Indo-Gangetic Plain*.—Next to the Himalayas comes the great plain of Northern India. It is about 150 to 300 miles in width and is watered by three great systems of Himalayan rivers—the Indus, the Ganges and the Brahmaputra. Most of this plain is covered with fertile alluvial soil and produces rich crops. In its soft soil, a good system of canal irrigation has been developed. Only the western part of this plain is dry and sandy. The Eastern parts are moist and productive. Generally, there is a heavy density of population in this plain.

(3) *The Peninsular India (Deccan)*.—To the South of the Indo-Gangetic plain, lie the Deccan Peninsula. It is a rugged plateau and is separated from the North by the Vindhya range. On its western side, there are the steep hills of the Western Ghats and on its eastern side, there are the Eastern Ghats which gently slope in to the Bay of Bengal. There is a narrow strip of land between the Western Ghats and the sea. With the result, monsoon clouds deposit their moisture on the mountainous barriers and the inland region on this side has to suffer at times from droughts and famine. But there is sufficient space between the Eastern Ghats and the coast and the monsoons pass over the lower sea-walls of the Eastern Ghats easily providing rains to the eastern parts of the Peninsula. The



Deccan Peninsula is generally uneven and rocky. Most of its hill peaks are covered with forests. In its eastern parts, there are the stretches of rice land and the western parts owing to their scanty rainfall, grow only millets and cotton. This whole plateau has an average height of 1500 feet and has several deep valleys through which seven great rivers carry their waters to the Arabian sea and the Bay of Bengal.

### **Climate.**

The economic life of a country is very much influenced by its climate. Its natural vegetation and productivity of its land are determined by its climate. Even the character of its people and their efficiency are much influenced by it.

Between the different parts of the country, there are great physical and climatic contrasts and it is difficult to make any general statement about the climate of India. Every extreme type of climate which exists in the area of tropics or the temperate zone, is to be found within its boundaries.

The whole of Northern India lies beyond the Tropic of Cancer. In its various provinces, the severity of heat or cold and the amount of moisture present in the air, differ greatly during different seasons. In the Punjab and Western U.P., there is bitter cold in winter and extremely hot in summer. In the eastern parts of the region, severity of heat and cold gradually diminishes. In Bengal and Assam the winter is mild and the summer is not extremely hot. It is extremely dry in Rajputana and the Punjab.

The Deccan Peninsula is rather hot. The variations of temperature between winter and summer are small. It is generally cloudy near the coasts.

The variations in climate result in a rich variety of crops. At the same time, this extreme climate adversely affects the health and efficiency of the people. It is responsible for the spreading of tropical diseases like malaria.

### **Rainfall.**

Most of the rains in India are caused by two main currents of monsoons, viz., the Arabian Sea current and the Bay of Bengal current. The former gives rains to Bombay, the Punjab and a part of Central India and the latter to the rest of India. We get 90 per cent of our rainfall from these two currents of



the South-West Monsoon which continues from the middle of June to September. From September to December is the period of retreating monsoon. After that, there begins the period of north-east monsoon which does not cause much rainfall in our country.

The amount of rains in the different parts of the country depends on the configuration of the surface of the land and on its situation with reference to the winds. There is plenty of rainfall on the mountains and in forest areas and it is scarce in deserts. It is for this reason that in Cherapunji hills, it is about 460" and in some parts of Rajputana, it is only 10 to 15 inches in a year.

The quantity, distribution and the time of occurrence of rains determines the success or failure of the crops. Monsoon are a very important factor in the economy of our country because 70% of our people are dependent on agriculture. Failure of rains very often leads to severe famine. It is not only agriculture but trade and industries are also adversely affected by this. In fact, the prosperity of the country depends entirely on the monsoons. Even the income of the Government is sometimes uncertain and the Government budget in India has been called a "gamble in monsoon".

### **Forests.**

India has a big variety of forests. The character of forests is mainly governed by rainfall and elevation. The Indian forests can be broadly classified as follows :— (1) Arid Forests—They are found in Rajasthan, Southern Punjab and in other dry areas where the rainfall is less than 20 inches. Their main trees are Kikar and Babul. (2) Deciduous forests—They include the Teak and Sal forests of India. Their other trees are ebony, rose-wood and sandal wood. They are also known as monsoon forests and extend over large areas in Sub-Himalayan tracts and Deccan Plateau. (3) Evergreen forests—They are found in the regions of heavy rainfall. They have very big trees with thick trunks. (4) Mountain forests—They have a lot of variety in them. In the Eastern parts of Himalayas and Assam, oaks, magnolias and laurels grow in plenty. In the North-Western Himalayas, deodar grows between the heights of 6000 and 8000 feet. (5) Tidal forests—They are found along the northern sea-coasts of Madras and in the deltas of rivers.



In India, 20 per cent of the area is covered by forests.

*Useful products of forests and their location :—*

Teak—Assam, Western Ghats and Vindhyaachal mountains.

Sal—Madhya Pradesh.

Deodar—Himalayas.

Blue Pine—Himalayas (at elevation of 6000 to 12,000 ft.)

Rubber—Assam, Travancore-Cochin.

Cinchona—Himalayas and Nilgiri Hills.

Some of the other minor products of the Indian forests are bamboos, grass, tans and dyes, oils, gems, resins, drugs and spices.

*Advantages of forests :—*

(1) They render the climate more equable and help in causing rainfall.

(2) They regulate the water flowing freely from rivers and help to check the violent floods.

(3) They increase the fertility of the soil.

(4) They reduce the velocity of air currents, protect the adjoining crops from cold and dry winds and provide shelter to cattle, game and useful birds.

(5) They have a wholesome effect on the climate and make it healthy.

(6) They add to the beauty of the country.

(7) They provide us with big grazing areas for our cattle.

(8) We get timber, firewood and some raw materials for our industries.

(9) They provide employment to a large number of people. Large number of jungle population obtain their livelihood directly from the products of forests.

*Administration of forests.*—About the middle of the 19th century large areas of forests were destroyed for the construction of railways and for extension of agriculture. After a few years, dangers of this careless destruction of forests were realized and in 1864 a Department of Forests was set up. In 1894, the



government laid down a definite policy in regard to forests and divided them into four categories, viz., (1) Essential forests, (2) Commercial forests, (3) Minor forests, (4) Pastures and grazing grounds.

In 1906, the next important step was taken by the government and a Forest Research Institute and a Forest College were started at Dehradun.

After the Independence, the government policy towards forests became more energetic and definite. In 1950, Shri K. M. Munshi, the then Food and Agriculture Minister of India, started '*Vana Mahotsava*' or the 'Grow More Trees' campaign. Since then it has become a regular annual feature and millions of new trees have been planted. In 1952, the Union Government made some new declaration of policy in regard to forests. They have also started the desert afforestation scheme and propose to have 5-mile deep belt extending over a large part of the Western border of Rajasthan.

The Planning Commission have much emphasised the importance of forests and made certain recommendations in regards to preservation of forests, increasing the area under forests and encouraging the industries based on forests. In the First Five Year Plan, Rs. 11.7 crores was provided for this purpose. In the Second Five Year Plan, Rs. 27 crores have been provided to implement a more comprehensive policy.

### Geological Structure.

#### Soils.

(1) *Alluvial tracts*.—The alluvial soil is formed by rich clay deposits made by rivers. This type of soil is mostly found in the Punjab, Gujerat, Rajputana, Uttar Pradesh, Bengal, the coastal strips and in Assam. It is naturally endowed with a sufficiency of chemical properties. With moderate rainfall and a little amount of labour, it produces rich crops.

(2) *Trap soils*.—Next in importance are the trap soils. They cover the whole of Deccan and large areas of Central India, Hyderabad and Kathiawar. On the uplands and the slopes of hills, this type of soil is poor and is able to grow millets and pulses. In the lower areas, the soils are more fertile and are suited to the growth of cotton, wheat, millets and pulses. Some portions of the Deccan trap are the black cotton soil. It is dark in colour and suitable for the growth of cotton. It possesses



an almost inexhaustible fertility. It is endowed with rich chemical properties and is capable of growing of *rabi* and *Kharif* crops.

(3) *Crystalline soils*.—Leaving aside the areas of the above special varieties of soil, the rest of India has crystalline soils. These soils are found in the states of Madras, Andhra, Hyderabad, Bombay, Mysore and some parts of Madhya Pradesh. These soils are generally deficient in chemical properties specially in the upland areas. In the lower areas, there are clayey and brownish loams which are quite fertile. They are suitable for the growth of rice and other crops. The reddish-brown or yellow-red soils of this type are suitable for the growth of fruit trees.

In Assam, Eastern and Western Ghats and in some parts of Central India, there is the laterite soil which is suited for the growth of tea.

### **Minerals.**

India is rich in mineral resources. Her mineral resources are widely distributed over almost the whole of her area. They are forming the basis of the growth of a number of industries in the country. Indian Union's position with regard to her minerals has been very well summed up in the First Five Year Plan as follows :—“Coal, iron ore, manganese ore, mica, gold, ilmenite, copper and building materials are produced in India in quantities of real importance to industry and other sectors of economy. Other minerals of which India possesses good reserves are bauxite, industrial clays, chromite, atomic energy minerals, refractory minerals and abrasives. The more important minerals, supplies of which are inadequate for any large industrial development, are sulphur, copper, tin, nickel, lead, zinc, graphite, cobalt, mercury and liquid fuels. Except for these, India is endowed with the basic minerals and power resources needed for industrial expansion though, in relation to the population, the reserves compare unfavourably with the important mineral regions of the world.” A brief description of the various mineral resources of the country is given below :—

*Coal*.—It is the most important of the mineral products of India. Its quantity is large and quality is good. In 1956, 39 million tons of coal were produced and in 1957, the production rose to 43.54 million tons. Most of this is used in the country



and only a small part is exported. It is considered as a 'key' mineral because it is a source of heat for domestic and industrial purposes and it is also the most important source of motive power. It is equally essential for metallurgical industries. It is produced at the following centres :—

(a) Damodar Valley fields—Jharia, Raniganj, Bokaro, Giridih, Karanpura.

(b) Mahanadi valley fields.

(c) Godavri Valley fields—Singareni.

(d) Makum in Assam.

(e) Palna in West Rajasthan.

Most of our coal production is confined to one corner of the country because 4/5th of the coal supply is from Jharia and Raniganj. We need to develop quick and cheap means of transport to supply coal to deficient areas. Moreover, the reserves of 'coking coal' are limited. Hence, it should be used in an economic manner.

*Iron.*—It is the most useful metal and it is indispensable for the industrialisation of any country. It has really ushered in the modern age of machines. It is quite gratifying to know that "next to the U.S.A. and France, India has the world's largest reserves of iron ore, and what is more, they are of the richest kind". Fortunately, most of the iron ore centres are within easy reach of the coal mines. Also, dolomite and magnesite are near to them. It makes it possible to produce iron very cheaply and in large quantities.

Iron ore of good quality is found in many parts of India. Its most important centres are Singbhum in Bihar and Keonjhar, Borai and Mayurbhanj in Orrisa. Hence, the important iron ore centres are in Bihar and Orrisa, only about 150 to 200 miles from Calcutta. About 45% of India's total production of iron ore comes from Orrisa.

The production of iron and steel for the year ending 31st March, 1958, is as follows :

Pig iron—18,32,245 tons.

Steel ingots—16,14,380 tons.

Saleable steel—11,97,458 tons.



Thus, the yearly production of iron ore is at present near about 4·6 million tons. It is expected that it will rise to several fold during the period of the Second Five-Year Plan.

*Manganese ore.*—It is another very important mineral and is used for many industrial purposes. It is used in heavy chemical, electrical and glass industries but it is most needed for the manufacture of steel. India is the second largest producer of manganese in the world and it is only next to Russia.

Manganese deposits are at the following places—Balaghat, Bhandara and Nagpur in Madhya Pradesh. Keonjhar in Orrisa; Visakhapatnam in Madras; Panchmahal in Bombay and Singhbhum in Bihar and Mysore.

More than 4/5th of the total produce of manganese in India, is exported abroad. It is mostly sent to U.S.A. and therefore it helps us to get dollars in exchange. About 1.63 million tons of manganese was produced in the year 1956. It is expected that about two million tons will be produced every year after 1960. Its consumption in India will increase very much on account of the expansion of the steel industry. Also, plants are being set up to manufacture ferro-manganese which will bring much higher price than manganese in its export trade.

*Gold.*—Only about 2 per cent of world's gold is produced in India. Most of the Indian gold comes from the Kolar gold field in Mysore state and very small quantities of this metal are found in Madras, Punjab, U.P., Bihar and Orrisa.

*Mica.*—India is the largest producer of this mineral. More than 75% of world's production is produced here. Like manganese, large quantities of mica are exported abroad. It can be very well used in developing many industries within the country such as electrical goods, wireless apparatus and radio sets. It is mainly found in Hazaribagh and Gaya districts of Bihar. Other sources of mica are Mysore, Andhra and Central India.

*Bauxite.*—Aluminium which has become very important nowadays and is replacing steel in several uses, is made from bauxite. Aluminium is used in aircraft industry. Bauxite is mainly found in Bihar, Madhya Pradesh and Travancore-Cochin. Large quantities of aluminium can be produced in India if cheap electric power becomes available. About 98,033



tons of aluminium were produced in 1956. Its target is 175,000 tons by the year 1960-61.

*Petroleum.*—Its economic importance is very great. Many industries depend upon petroleum and its products for their development and expansion. The supply of petroleum is very insignificant in our country. It is found only in Assam where Digboi is its most important field. Our annual production is about 67 million gallons which is only about 1/12th of our annual requirements. We therefore, import oil from Iran, Bahrein islands, Saudi Arabia, U.S.A., Sumatra, and Singapore.

The Indian Government is very anxious to increase the production of oil in the country. With the help of foreign experts, they are trying to locate new sources of oil in the Punjab, Assam, West Bengal and Gujerat. They have been successful to some extent because the experts have located new sources of oil at Nahorkatiya in Assam and at Cambay in Gujerat. The Government has also formed the scheme of producing oil from second-grade coal which is available in plenty. Moreover, three refineries have been set up in India to refine crude oil imported from abroad. In the Second Five Year Plan, there is the scheme to set up a State plant to produce 300,000 tons of synthetic petrol.

*Copper.*—It is mainly found at Singbhum in Bihar. In smaller quantities it is also found in Andhra, Madhya Pradesh, Mysore, Kulu and Kangra etc. From all these sources, about one-third of the country's demand is satisfied.

*Silver, Lead, Zinc and Tin.*—These metals are also needed for industrial development. They are produced in very small quantities in the country and therefore, they have to be imported from abroad.

Silver is found in the Kolar gold field in Mysore and at Manbhum in Bihar. Lead and Zinc are found at Udaipur and Jaipur in Rajasthan.

*Salt.*—The main sources of supply of salt are the marine salt works along the coastal regions. lake pit brine salt in Rajasthan and Bombay, and rock salt deposits in Himachal Pradesh. More than 2/3 of the salt used in India, is made from sea water in Bombay and Madras.



*Precious Stones, Diamonds and Sapphires.*—Various types of precious stones are to be found in different parts of India. Diamonds are found chiefly in Madras and Madhya Pradesh.

*Chromite.*—This is chiefly found in Mysore. Its other sources are Kistna in Andhra, Keonjhar in Orrisa and Singbhum in Bihar.

*Ilmenite.*—It provides a good alloy for high speed steel. We obtain it from the beach sands of Travancore and the east coast and we are its largest producer. It is exported in large quantities.

*Sulphur.*—It is much needed in heavy chemical industries. It is obtained from iron pyrites. Two sources of sulphur have been recently discovered. One is in Shahbad district of Bihar and another in Chitaldrug district of Mysore.

*Gypsum.*—It is mainly used in making fertilizers and cement. It is found in Rajasthan, Madras, Bombay and the Punjab.

*Thorium.*—It is required for producing atomic energy. It is obtained from the beach sands of Travancore-Cochin.

From the above description of our mineral resources, we arrive at these conclusions :—

(1) Our mineral resources are not very well distributed. Some of them like iron, coal and petroleum are very much concentrated. Others like gypsum are too much scattered.

(2) In the past, they have been worked carelessly with the only aim of making high profits. We should know that they are exhaustible and can not be replaced. We should try to conserve them. It can be done by adopting up-to-date methods of mining.

(3) We have been exporting them in large quantities in raw form. We should try to use them for our own industrialisation. Even those, which we can not use, should be exported in finished or semi-finished form at higher prices.

The Government of India is taking some steps in this direction. For proper investigation and development of the country's mineral resources, provision of rupees one crore was made in the First Five Year Plan. The Geological Survey of India has been expanded. Two new institutions viz., The Indian Bureau of Mines and National Fuel Research Laboratory have been set up. Efforts are being made to locate new sources of



important minerals. The Planning Commission has made a detailed scheme for economic and efficient working of mines and for research in mining.

### **Power Resources.**

Cheap motive power which can be obtained from several sources such as wind, water, wood, fuel, coal, oil, alcohol and electricity, is essential for the industrial development of a country. Recently, atomic power and solar energy have also begun to be used as sources of power but only to a very limited extent and so far, electricity, coal and oil continue to be the most important sources of power.

In India, it is difficult to make use of wind as a source of power. Hence its use as such is practically unknown in our country. We also do not have enough wood fuel to use it as a source of power. In the 19th century, when wood fuel was used for our railways, it led to the destruction of much of our forest wealth. Power alcohol which can be manufactured from molasses, can serve as a source of power, after being mixed with petrol. Molasses which was being thrown away till very recently, is being partly used for making power alcohol. But from this source, we can get only a limited supply of power not at all sufficient for our industrialisation.

*Coal and oil as sources of power*—As described in the preceding pages, we are not in a satisfactory position in regard to both of them. The reserves of metallurgical coal are small in our country and therefore it has to be used very economically. Moreover, our coal is mostly located in one part of the country and it is quite costly to move it to the other parts of the country. So far, our oil resources are also very poor.

*Hydro-electricity or water as source of power*—The electric power which is generated from water, is known as hydro-electricity. A vast amount of hydro-electric energy can be produced in our country. In this respect, we are only next to U. S. A. and Russia as our potential resources of hydro-electric energy have been estimated at 400 Lakhs of kilowatts. Fortunately those states which are lacking in coal or oil, have greater potentialities of water power. Such states are Madras, U. P., Bombay and Punjab. Nature has compensated them



by providing them greater resources of water power. Hydro-electricity is much cheaper because it costs only about one-fourth as compared to coal or oil. It can be easily transmitted over long distances. Even the water released after generating electricity, is very well utilized for irrigation purposes.

*Advantages of Electricity.*—The growth of electric energy has brought about a revolution in our life. It has made possible the making of great advances in technology. It provides cheap power to large scale industries. It has now become possible to decentralise big industries because electricity can be easily transmitted over long distances. It avoids overcrowding near the big cities.

Even the cottage and small scale industries have been immensely benefitted by this. With the help of cheap electric power, it is possible to have a net work of such industries. It is for this reason that Japan and Switzerland have made a very great progress in respect of such industries.

For agriculture also, electricity is of immense benefit. It helps us in lifting water from wells or in having tube wells. Work involving much of physical exertion which is now done by our cattle with great difficulty, can be easily done by means of electricity.

In transport also, electricity is of great service. In several big cities of India, trams are run with electricity. In Bombay, electric trains are very helpful.

Besides, electricity has made our daily life very comfortable by providing us with many appliances used in our homes. It is with the help of electricity that we are able to enjoy cool breeze in summer and warm and cozy rooms in winter. In short, it has raised the general standard of living and made our life extremely comfortable.

*Development of Hydro-electric works in India.*—Rainfall in our country is mostly seasonal and we get whole of it during a few weeks of the year. With the result, a large quantity of rain water goes waste. This water can be stored and utilized for producing electric power. Also the Indian rivers which are full of natural water-falls, can be used to produce electric energy. It has been remarked about the vast water power resources of India that “the rainfall or snowfall over India



could provide potential energy equivalent to some thousand million kilowatts." It is for this reason that some hydro-electric works were started much before the Independence. But so far, only about half the total electric energy, comes from hydro-electric works and the rest from thermal plants which are worked with coal or oil. But in future, all electric generating instalations will be hydro-electric as we have vast water power resources.

The hydro-electric works which have been already working in the different states, are as follows :—

*The Mysore Hydro-electric Works.*—They are in the state of Mysore on the river Cauvery. They were the first major hydro-electric works in the East established in the year 1902. They are generating about 40,000 Kw. They are supplying power to a number of towns and villages and also to the Kolar Gold Fields.

*Mahatma Gandhi Hydro-electric Works.*—They were completed in 1952. They are producing 1,20,000 kw. at Jog Falls, They are serving the states of Madras, Bombay and Mysore.

*Tata Hydro-electric Works.*—They are situated in the Bombay State. They are harnessing the water of five lakes viz Shirawta, Walwhan, Lonavla, Thokerwadi and Mulshi. They are producing about 2·5 lakhs kw. and are supplying electricity to the suburban railways, the mills and the general consumers in Bombay city and its suburbs. Some other towns of the state are also receiving the electric supply from these works.

*Mandi Hydro-electric Works.*—They came into operation in 1933. They are using the water of river Uhl, a tributary of the Beas. The water of the river has been diverted into 3 miles long tunnel and made to fall through steel pipes from a height of 1800 ft. at Jogindernagar. These works are producing about 50,000 kw. of energy which is being supplied to some towns and villages of the Punjab.

*The Pykara Hydro-electric Works.* They were completed in 1932. They are utilizing the Pykara river 300 ft. fall in the Nilgiri hills. They are supplying electric power to a number of towns in the Madras State.



The Moyar Hydro-electric scheme is also serving the Madras State. The combined capacity of these instalations is 1,20,000 kw.

*The Mettur Hydro-electric Works.*—The Mettur Dam was constructed for storage of water for irrigation. It is now generating about 50,000 kw. of power, which is being supplied to some towns of the Madras State. This dam is one of the best of its kind in the world.

*Papanasam Hydro-electric Works.*—They are on the river Thamberapani and were completed in the year 1944. They are also serving the Madras State.

*The Ganga Canal Hydro-electric Grid System.*—It is making use of the falls of the Ganga Canal System. This hydro-electric grid system has been established by connecting the different power-houses. It is providing electric power to a number of towns in the western U. P.

Mohammadpur Hydro-electric works which were completed only a few years back, are supplying about 10,000 kw. of energy.

#### *New Schemes of Power Projects and Multi-purpose Projects—*

For its proper development and industrialisation, India needs lot of more electric power. Therefore, the National Government have prepared several power project schemes and they are already going ahead with some of them. The main power projects which are being established in the different parts of the conntry, are mentioned below :—

*The Periyar Hydro-electric Project.*—Situated in the Madras State. It was started in 1955 and is expected to generate 1,40,000 kw.

*The Machkund Project.*—It is an important power project of the Andhra State. It is expected to generate 1 lakh kw.

*Rihand Project.* It is the biggest power project of the State of U. P. It was started in 1954 and is likely to be completed by 1960. It is expected to provide 2,40,000 kw. of energy to the eastern parts of U.P. and Vindhya Pradesh.

The Khatima Project and the Pathri Project are other

hydro-electric schemes of U.P. They are expected to generate 41,400 Kw. and 20,400 Kw. of energy respectively.

*The Konya Project.*—It is the biggest power project in the Bombay State. It was started in 1954. On the completion of its first stage which is likely to cost about Rs. 33 crores, it is expected to generate 2,40,000 kw.

Besides these power Projects, some multi-purpose projects are being established in the different parts of the country. They will not only supply electric power but also provide irrigation facilities, and control floods. They are mentioned below with their respective expected power generating capacity :—

| Name of the Project            | States to be benefitted     | Expected generating capacity. |
|--------------------------------|-----------------------------|-------------------------------|
| 1. Bhakra-Nangal Project       | Punjab                      | 4 Lakhs kw.                   |
| 2. Hirakud dam                 | Orrisa                      | 2 Lakhs kw.                   |
| 3. Damodar Valley Project      | Bihar and West Bengal       | 2.84 Lakhs kw.                |
| 4. Tungabhadra Project         | Andhra and Hyderabad        | 65,000 kw.                    |
| 5. Chambal Project             | Madha Pradesh and Rajasthan | 2 Lakhs kw.                   |
| 6. Kosi Project                | Northern Bihar              |                               |
| 7. Sind Hydro-electric Project | Jammu and Kashmir           | 6,000 kw.                     |
| 8. Mayurakshi Project          | West Bengal                 | 4,000 kw.                     |

The above description of the existing and the new power project under execution, is quite ambitious. It is being given a practical shape. In the First Five-Year Plan, about Rs. 623 crores were spent over the various irrigation and power projects. As a result of that, the installed capacity of electric power increased from 23 lakhs to 34 lakhs kw ; i.e., by 11 lakhs kw. It is proposed to increase the installed capacity to 69 lakhs kw. in the Second Five-Year Plan. That is, there would be an increase of 35 lakhs kw. in the Second Plan period.



*Conclusion.*—From the above description of our different natural resources, it is evident that Nature has been quite generous to the people of this country. It has endowed us with lavish gifts such as Himalayas which are full of immense potentialities, Indo-Gangetic plain, a perennial source of rich crops, vast and varied mineral resources, tremendous water power resources and an ideal geographical situation. A country with such vast resources should be very advanced and prosperous. But the actual condition is entirely different. There is much poverty in the country and the standard of living is very low. In other words, there is poverty in the midst of plenty.

The simple reason of this state of affairs is that our vast natural resources had not been exploited in the past. The varied resources such as large arable lands, rich forests, big fisheries, huge water resources, vast man power and good mineral resources, were not properly used. The natural result has been widespread poverty.

After independence, the National Government is trying to make the best use of these natural resources. The Planning Commission has made comprehensive schemes to exploit the natural resources in the best possible way through the Five-Year Plans. Now, the country appears to be making all round progress though at a slow pace and the standard of the people is gradually improving.

### Questions and Projects.

1. Describe the importance of physical features and the natural resources of a country.
2. "A country is said to make its people." Explain this statement with reference to India.
3. Describe the natural divisions of India making a mention of their potential resources.
4. To what extent does the prosperity of India depend on its monsoons ?
5. What are the main types of soils in India ? Mention the chief products of each.
6. Describe the chief mineral products of India mentioning their location.
7. Discuss the importance of India's mineral wealth in regard to the future economic development of the country.

8. Do you think that the mineral resources of India are enough for her industrial development ?

9. What are the main types of forests in India ? Are they adequate for the needs of the country ?

10. What are the useful products that we get from our forests ?

11. Discuss the advantages of forests.

12. How is agriculture benefitted by forests ?

13. What industries are based upon forests ?

14. What steps are being taken for the development of forests.

15. Describe the chief sources of power in India.

16. Discuss the importance of water-power resources in India.

17. Prepare a pamphlet on the various types of projects viz. purely power projects and multi-purpose projects, distinguishing clearly between them. First describe the existing projects and then the new ones. Give all possible details about each one of them e.g., their location, cost incurred upon them, time taken in completion, power to be generated, area to be irrigated and other advantages expected from them. Give illustrations wherever you can.

18. Do you think the hydro-electric power resources of India are quite adequate for her industrial development ?

19. What do you know about the development of hydro-electric power in your state ?

20. Prepare a project (a pamphlet) about the Bhakra Nangal multipurpose project, the biggest power project not only of your state but of the whole country. Try to give all possible details about it.

21. Explain the paradox, Indians are a "poor people in a rich country".

22. What steps has our national government taken to develop our natural resources ?

23. "The natural resources of India are great. What is required is their proper conservation, development and use."

Discuss the above statement with special reference to forest, water power and mineral resources of India.



## CHAPTER II.

**Growth of Population. Density of Population. Occupational Distribution. Birth-rate and Death-rate. Is India over populated? Family Planning. Population Policy for India.**

In the previous chapter, we have discussed the various natural resources of India and their importance in the economic development of the country. Now we turn to the human factor or study the problem of population in India and its repercussions on the economic life of the country. In order to understand this problem properly, we should examine the following aspects of this question :—

1. Growth of population in relation to the natural resources of the country.
2. Proper exploitation of these resources by the people of the country.
3. Distribution of population in the country and among the various occupations.
4. The rate of increase or decrease in population.

### **Statistics of Population and of its growth.**

According to the census of 1951, the population of India was 361.82 millions. It includes the population of Jammu and Kashmir and of the tribal areas of Assam. In respect of population, India occupies second place in the world and only China leads with a population of 463.50 millions. Let us now examine the growth of population during the last 50 years.

| Year | Population<br>(in millions) | Increase<br>(in millions) | Percentage<br>increase |
|------|-----------------------------|---------------------------|------------------------|
| 1901 | 238                         | —                         | —                      |
| 1911 | 249                         | 13.55                     | +5.8                   |
| 1921 | 248                         | —0.87                     | —0.3                   |
| 1931 | 275                         | 27.34                     | +11.0                  |
| 1941 | 319                         | 39.31                     | +14.3                  |
| 1951 | 362                         | 43.0                      | +13.4                  |

The first census was taken in our country in 1872, the second one in 1881 and since then it is being taken after every ten

years. The growth of population during the first 50 years of the 20th century has been shown in the above table. This growth was neither high nor regular upto the year 1921. This small and irregular growth has been on account of the frequent occurrence of famines and epidemics which swept away a large number of human beings. There was an actual decrease in the population during the period 1911-21, on account of the heavy mortality as a result of the influenza epidemic of 1918-19. It is estimated that about 22 million people died in that epidemic.

Since 1921, there has been a rapid increase in population because this period has been free from big famines except the Bengal Famine of 1943 in which 2 million people died. Also, the mortality from diseases like plague, cholera and influenza has been moderate during this period. The increase in population was twice during the period 1931 to 1951 as compared to the period 1901-31. During the last 10 years 1941-51, the rate of increase is 13·4% which is not much as compared to some of the Western countries. But total increase and addition to the existing large population is alarming. The total population of the country increased by 43 millions which is more than the population of France.

*Population statistics of different States.*—In total population, Uttar Pradesh leads with a total of 63·21 millions. Next in order are Bombay with 48·0 millions, Bihar with 38·8 millions, Andhra with 31·26 millions, Madras with 30·0 millions, West Bengal with 26·03 millions etc. The population of U.P. is bigger than that of Great Britain. As regards the rate of increase, it has been the highest in Bombay and the lowest in the former Punjab where it actually declined by 0·5 p.c.

*Population and area of India and her States and Territories:—*

|                   | Area in sq. miles | Population in millions. |
|-------------------|-------------------|-------------------------|
| India             | 12,59,797         | 361·1                   |
| <i>States—</i>    |                   |                         |
| Rajasthan         | 1,32,098          | 15·9                    |
| Orissa            | 60,250            | 14·6                    |
| Jammu and Kashmir | 85,861            | 4·4                     |
| Punjab            | 47,062            | 16·0                    |
| Kerala            | 14,937            | 13·5                    |
| Mysore            | 74,861            | 19·0                    |



|  |          |       |
|--|----------|-------|
| Assam  | 85,062   | 9·7   |
| U. P.  | 1,13,423 | 63·2  |
| Madras                                       | 50,174   | 30·0  |
| Bihar  | 67,113   | 38·8  |
| Bombay                                       | 1,90,668 | 48·0  |
| West Bengal                                  | 33,885   | 26·3  |
| Madhya Pradesh                               | 1,71,300 | 26·0  |
| Andhra Pradesh                               | 1,05,700 | 31·26 |
| <i>Territories—</i>                          |          |       |
| Delhi  | 573      | 1·74  |
| Himachal Pradesh                             | 10,922   | 1·10  |
| Manipur                                      | 8,629    | ·57   |
| Tripura                                      | 4,022    | ·63   |
| Andaman and<br>Nicobar Islands               | 3,215    | ·030  |
| Laccadive, Minicoy, and<br>Aminidivi Islands | 42       | ·021  |

*Density of population in India.*—By density of population is meant the number of people who live on one square mile on the average. We can calculate this by dividing the total population by the total area of a country. In our country, the average density of population is 312. It is much higher in some of the Western countries. For example, the density of population is about 600 in the U. K., 654 in Belgium and 449 in Germany. The reason why these countries are so densely populated is that they are small in area but highly industrialised. On the other hand, India has a big area and is mainly an agricultural country. So, let us compare India with some other agricultural countries as regards the density of population. For example, the density of population is 123 in China, 108 in Indonesia and 15 in Brazil. Hence, India is more thickly populated than these countries. Even in comparison to some agricultural cum industrial countries, such as Australia with a density of only 3 per sq. mile, Canada also with 3, France with 193 and U.S.A. with 50, India leads.

*Density of population in the States.*—Density of population is different in the different states. It will be evident from the following figures :—

| <i>State</i> | <i>Density of Population</i> |
|--------------|------------------------------|
| West Bengal  | 775                          |
| Bihar        | 572                          |

|   |       |
|---|-------|
| U. P.                                       | 557   |
| Madras                                      | 598   |
| Punjab                                      | 340   |
| Bombay                                      | 253   |
| Mysore                                      | 261   |
| Orissa                                      | 244   |
| Madhya Pradesh                              | 152   |
| Rajasthan                                   | 121   |
| Assam                                       | 108   |
| Andhra                                      | 295   |
| Kerala                                      | 907   |
| Jammu and Kashmir                           | 51    |
| <i>Territories</i>                          |       |
| Delhi                                       | 3,044 |
| Himachal Pradesh                            | 102   |
| Manipur                                     | 67    |
| Tripura                                     | 159   |
| Andaman and Nicobar Islands                 | 10    |
| Laccadive, Minicoy and<br>Aminidivi Islands | 501   |

In fact, the fertile and productive areas of the Gangetic plain, the Western and Eastern coastal strips and some parts of the Madras State have high density. The desert, forest and hilly areas of Rajasthan and Assam etc. have a low density. Some other parts of the country have a medium density. These variations in density are on account of a number of causes which are mostly connected with agriculture as most of the Indians depend on agriculture.

### **Factors that account for these variations in density.**

1. *Configuration of the land.*—The hilly and mountainous areas which are not so suitable for agriculture, are thinly populated. For example, areas of Assam, Himachal Pradesh and Deccan Plateau are like that. The plains of U.P., Bihar, and West Bengal which are fertile and suitable for agriculture, have a high density.

2. *Fertile soil.*—The areas of U.P., Bihar and West Bengal and some parts of Madras and western coastal strip which are fertile and productive, have a high density. Rajasthan owing to its sandy soil and Deccan on account of its rocky soil have a low density.



3. *Amount of rainfall.*—Those areas which have too much of rainfall e.g., Assam or too little of rainfall such as Rajasthan and southern Punjab, are thinly populated. On the other hand areas of moderate and properly distributed rainfall e.g., U.P., Bihar and West Bengal, are thickly populated.

4. *Congenial Climate.*—The areas which have a healthy and moderate climate, have a high density. The areas of extreme climate are not so suitable for living and are generally thinly populated.

5. *General economic condition.*—The density also depends upon the stage of economic development. An area in the agricultural stage is more populated than a pastoral area. Also, the areas which are industrially or commercially advanced such as the countries of Western Europe, are thickly populated. It is for this reason that cities of Delhi, Bombay, Calcutta, Madras and Kanpur etc. which are industrially advanced, have a thick population.

But it should not be understood that all economically prosperous areas have a high density. The big countries of U.S.A. Russia and Canada etc. are economically prosperous and yet they have a low density.

*Occupational Distribution of Population.*—We can judge the economic progress of a country from its occupational distribution of the population. In the highly developed countries, a larger percentage of the population is engaged in industries, commerce and transport services and a smaller number of people is occupied in primary industries like agriculture and forestry etc. The fact that our country is comparatively backward, is shown clearly from the figures given below.

| <i>Percentage engaged in</i> | <i>1931</i> | <i>1951.</i> |
|------------------------------|-------------|--------------|
| Agriculture                  | 68·84       | 69·8         |
| Industry                     | 10·38       | 10·5         |
| Commerce                     | 5·83        | 5·9          |
| Transport                    | 1·65        | 1·5          |

These figures bring another fact to light that our dependence on agriculture has increased during the last two decades instead of decreasing. In most of the advanced countries, the percentage of the agricultural population is much less. For example, it is only 6 p.c. in the U.K., 19 p.c. in the U.S.A., 17 p.c. in Belgium, 24 p.c. in Sweden, 20 p.c. in New Zealand, 16 p.c. in Australia and 26 p.c. in Canada.



In our states also, the percentage of the agricultural population is not the same. It varies from state to state as will be evident from the figures given below :—

| State       | Percentage. |
|-------------|-------------|
| West Bengal | 57·2        |
| Bombay      | 61·5        |
| Punjab      | 64·5        |
| Madras      | 64·9        |
| Rajasthan   | 70·9        |
| Assam       | 73·3        |
| U.P.        | 74·2        |
| M.P.        | 76·0        |
| Orissa      | 79·3        |
| Bihar       | 86·0        |

These figures show that in all states a very high percentage of people depend on agriculture. It is an indication of our unbalanced and unstable economy. Too much of dependence on agriculture is proving dangerous. In case of failure of rains, many people remain unemployed and sometimes, the country is faced with a famine. Steps should be taken to make the economic conditions stable. It can be done by a rapid industrialisation of the country.

*Distribution between towns and villages*—We can very well understand the economic condition of a country from the percentage of people living in the urban areas. The countries which are industrially advanced, have a larger percentage of their population in the towns and cities. For example in Great Britain, about 80% of the people live in urban areas. In India, only about 17% of the people live in towns. Even in the states of Bombay and West Bengal which are industrially most advanced, the percentage of the urban population is only 31·1 and 24·8 respectively. This shows the low state of industrialisation achieved by the country. However, the urbanisation has increased during the last 20 or 30 years. The percentage of urban population was 10·3 in 1921, 11·0 in 1931, 14·0 in 1941 and 17·0 in 1951. The number of cities having a population of one lakh or above, increased from 58 in 1941 to 75 in 1951. Their total population also increased from 16·74 m. in 1941 to 24·08 m. in 1951. This is an increase of about 50 p.c. All these are indications of the shifting of population from rural to the urban areas.



Now, the country has started progressing gradually and the number of towns is also increasing. But the administrators should be cautious lest there should be an increase in the number of congested and ugly cities which suffer from insanitary conditions and housing shortage. There should be proper town planning and only the towns of moderate size with most of the amenities of life should be allowed to develop.

### **Birth Rate.**

Birth rate means the number of children born per thousand of living population. It has been always quite high in our country. Since 1941, birth rate in our country has declined a little, though it is still quite high in comparison to other countries which are economically advanced.

*In the year 1951.*

| Name of the country | Birth-rate per 1000. |
|---------------------|----------------------|
| India               | 26·6                 |
| W. Germany          | 15·7                 |
| Italy               | 18·1                 |
| Sweden              | 15·6                 |
| U. K.               | 15·9                 |
| Belgium             | 16·1                 |

The very slow decline in the birth-rate in our country has been like this :—

|         |         |         |         |         |      |
|---------|---------|---------|---------|---------|------|
| 1881-91 | 1921-25 | 1931-35 | 1938-41 | 1945-49 | 1951 |
| 35·9    | 32·7    | 34·3    | 32·5    | 27·1    | 26·6 |

As compared to this, there has been a much greater decline in the birth rate in the Western countries. For example, between the year 1881-1935 in the U. K., the birth-rate declined from 32·5 to 15·5 and in Germany it went down from 36·8 to 15·9. In our country during the three years 1951-54, it has declined from 26·6 to 25·5.

Of course, there are some countries who have higher birth rate than India. They are Ceylon (40·6), Egypt (42·6), Mexico (44·6) Phillipines (32·4) etc. Some economists think that Indian birth-rate is much higher than the one mentioned here and that all births are not reported to the authorities. They put the birth-rate near about 40.

*Causes of high birth-rate.*—(1) The practice of universal and early marriage is widely prevalent. This is on account of religious and social causes. Early marriage provides a longer period for reproductive activity.

(2) According to our religious beliefs, it is considered one's duty to beget children and bring them up. A father must have a son to preform his last rites after his death.

(3) According to the experts, women have a high fertility between the age of 15 and 30 years. In India, about 80 p. c. of the girls are married between these ages. So most of them are married in the most fertile period of their life where as in the Western countries most of them are married after the age of 30.

(4) In the Western countries, adoption of birth-control practices is quite common. But the Indians are mostly ignorant about them. Also, most of them can not afford to buy the contraceptives.

(5) The custom of joint family makes them thoughtless in the matter of begetting children. Also, they welcome children because they help the father in the cultivation work or in any other family business. Child labourers are also quite common in our country.

(6) Most of the Indians are fatalists by nature. They do not give any thought to the family planning or things of this type.

(7) Too much of poverty in our country is another reason for high birth-rate. The standard of living of most of the people is very low on account of their having too many children. Most of the Indians do not pay any heed to this fact. It does not strike to them that they can improve their standard of living if they have less children to support.

### **Death Rate.**

Like birth-rate, death-rate is also very high in our country. But the fall in the birth-rate has been much less as compared to the death-rate during the last few decades. The death-rate has declined by a large percentage during these years as given below :—

| Period               | 1881-91 | 1921-25 | 1931-35 | 1945-50 | 1954 |
|----------------------|---------|---------|---------|---------|------|
| Death-rate per 1000. | 27·4    | 26·0    | 23·8    | 18·5    | 13·0 |



These figures indicate a substantial fall in the death-rate per thousand. This is the result of providing greater medical facilities to the people. But even now, the death-rate is much higher as compared to the western countries as is evident from the following figures :—

| <i>Name of the country</i> | <i>Year</i> | <i>Death Rate</i> |
|----------------------------|-------------|-------------------|
| India                      | 1954        | 13·0              |
| U. K.                      | 1949        | 11·7              |
| Australia                  | 1948        | 10·0              |
| Canada                     | 1949        | 9·2               |
| Holland                    | 1949        | 8 1               |

*Causes for the high death-rate in India.*—Firstly, there is a high rate of infant mortality in our country. It was about 113 per 1000 live births in 1954. In other countries it is much less as given below.

|             |      |    |      |
|-------------|------|----|------|
| Australia   | 24·5 | in | 1950 |
| U. S. A.    | 29·2 | „  | „    |
| U. K.       | 31·4 | „  | „    |
| New Zealand | 22·7 | „  | „    |

It is estimated that in our country, one-fifth of the children die before the age of one and that one-fifth of the total deaths are due to infant mortality.

Secondly, the death rate among women of reproductive age is also very high in our country. The estimate of the Public Health Commissioner is that in India, death-rate among women is 20 per 1000 child births. It is only 3 in U. K. This high female mortality in our country is on account of lack of proper medical care during and after child births, poverty and malnutrition. Over and above, there is excessive pregnancy. Not much importance is attached to women in our country. They are not given even proper food and medical care.

Thirdly, the general death-rate is high in our country because of too much poverty among the masses. People are generally under-nourished and ill-clothed. They live in insanitary conditions and get no medical facilities. There is congestion in cities and people have low vitality.

Fourthly, there is ignorance and illiteracy. People are superstitious and fatalists.

*Low expectation of Life in India.*—This is on account of

death rate in our country. It is very low as compared to other countries of the world as shown below :—

| Name of country | Average expectation of life |
|-----------------|-----------------------------|
| India           | 32·45                       |
| Egypt           | 35·65                       |
| Mexico          | 37·92                       |
| Australia       | 66·02                       |
| Canada          | 65·18                       |
| Sweden          | 67·06                       |
| U. K.           | 66·39                       |

It seems that it is the lowest in our country, the causes being high rates of infant and female mortality and low standard of living among the masses.

In other countries, the average expectation of life is higher among females than males. It is quite opposite of this in our country, as is evident from the following figures :—

| Name of the country | Average expectation among males | Average expectation among females |
|---------------------|---------------------------------|-----------------------------------|
| India               | 32·45                           | 31·66                             |
| Egypt               | 35·65                           | 41·48                             |
| Australia           | 66·07                           | 70·63                             |
| Sweden              | 67·06                           | 69·71                             |

In this connection, there is only one satisfactory feature, *viz.* average expectation of life in India has gone up by 5 years during the last 20 years (1931-51).

*Net survival rate.*—From the study of birth-rate and death-rate, we can determine the net survival rate which is more important. We do not possess enough statistics to find out the net reproductive rate. The estimate of Mr. D. Ghosh is that the net productive rate is 1·1 in India or that the Indian population is increasing by 10 p.c. in each generation. The National Planning Committee's estimated rate is 1·45.

**Is India over-populated ?**—India is over-populated or not is a very controversial question. In order to understand this, we have to examine some facts in regard to the growth of population. During the first half of this century, the population has grown by 52 p.c. It increased at a slow rate upto 1921 but after that it grew at a fast rate. Secondly, during the recent years, there has been a greater decline in the death-rate than in



the birth-rate. The natural result has been the growth of population at a fast-rate. Thirdly, in comparison to this growth of population the production of food and the standard of living has shown very little improvement. All the above facts, viz., high birth-rates, high death-rates, insufficient food supply and low standard of living etc. point out to the existence of the population problem in India. Lastly, let us judge this problem through another method. We have to find out whether preventive checks are being practised by the people or the positive checks are in operation to check the fast growth of population.

The people in the advanced countries use various methods to restrict the birth-rate. Such methods are for example the use of contraceptives, late marriages and sterilization etc. These are called preventive checks. On the other hand, if no conscious effort is made to restrict the growth of population, then the nature checks the too much increase by raising the death-rate. Epidemics of various types, famines and such other natural calamities take a heavy toll of life. These are called positive checks. Their existence in any country is a clear index of over-population. If we judge on this basis, then we come to the conclusion that India is over-populated because preventive checks are very uncommon in our country and a large number of people die of diseases that is, positive checks are operating.

On the other hand, some writers are of the opinion that India is not over-populated. During the period 1901-51, the population in our country has increased by 52 p.c. but the rate of growth has been still higher in some of the advanced countries, e.g., U.K., Japan, and U.S.A. The density of population is also smaller in our country than several other countries such as U.K. and Belgium. These writers also claim that India has vast natural resources and that the income per capita is rising in this country.

These arguments are correct to some extent but the problem is a little different one. The percentage of growth of population may be less in our country than the European countries but total increase in the numbers is much more even with this small percentage. Moreover, the European countries are going ahead with their economic development at a much faster speed than our country. They have improved their standard of living a great deal while we have not been able to do much in that direction. Also, our food supply has not increased in

proportion to the growth in population. The newly grown industries have provided employment to a very small percentage of population. The percentage of people depending on agriculture has actually increased during the period 1931-51. Besides, our density of population which is a little less than some European countries, is quite high for an economically backward country like India. Also there are other indications of the existence of the problem of population, *e.g.*, high birth-rate and high death-rate, widespread malnutrition and a large number of people living on a sub-human level.

*Remedies for Over-population.*—There is an imperative necessity to have a proper economic development of the country. If the natural resources of the country are fully exploited, it will lead to the development of agriculture and the growth of industries all over the country. The general standard of living will improve in the country.

With an all round improvement, in the country the death-rate will decline. If the birth-rate continues to be high, the population will grow at a faster rate. In the 19th century, this was experienced in Europe when it was getting industrialised. There it did not matter much because the total population was comparatively small. But if the same thing happens in India it is likely to create a difficult problem because we have got already a huge population. If the population is allowed to increase at this fast rate, it will eat up all the enhanced production from our agriculture and industry. Hence, a simultaneous attack should be launched on both fronts viz economic development and problem of population. We can hope to attain a higher standard of living in our country if the growth of population is checked and elaborate measures are adopted for a comprehensive economic development of the country. In order to have a judicious control over the growth of population, we need to have a positive and definite policy about the growth of population. First step in this direction is the introduction of family planning all over the country.

*Family Planning.*—It means that every family or a married couple should plan that they will have a certain number (2 or 3) of children during the course of a few years. They can do this by birth control methods or by using contraceptives. But most of the people in our country are against these things on religious grounds, This prejudice must be removed from their



minds and they must be made conscious of the great need of the birth control. Quite a larger number of our people are illiterate and ignorant. Moreover, they are too poor to buy these things. All round economic development of the country will increase their incomes and enable them to purchase these things. Moreover, steps should be taken for a wide-spread dissemination of the knowledge of these methods among the common people. But this will be possible only after the spread of education and general enlightenment because then the people will be able to understand the importance of smaller families and higher standard of living. Useful knowledge of these methods can be spread through press, cinema and radio etc. Through these devices, the masses can be made conscious of the utility of family planning and the necessity of checking the growth of population. There should be a large number of clinics to give advice on the suitable methods of family planning. Such clinics should be attached to all government hospitals, dispensaries, and public health agencies.

It is good that the Government are paying some attention to this matter. They have started a number of clinics in the various towns and cities to give the necessary guidance to the public in birth-control methods. In the First Five-Year Plan, some provision was made for the programme of family planning and Rs. 95 lakhs were allotted for the purpose. But this amount was insufficient for this big problem. All the same, a committee had been appointed to study various aspects of this problem and about a dozen pilot centres had been opened for popularising family control methods. At that time, Films Division of the Government of India also made a film for this purpose. It is through these methods, that the ideas of family planning are being spread among the common people.

In the Second Five-year Plan, a greater emphasis is being given to this scheme. The Central Board for family planning is establishing a number of centres for the training of personnel for family planning clinics. It is expected that during the Second Plan period, a large number of family planning clinics will be opened in big cities and towns. In this plan, Rs. 5 crores have been provided for family planning programme. The aim is to establish 300 urban and 2000 rural clinics during the Plan period. This is how "the policy of planned economic development for India, strengthened by the programme of

family planning at government level, would do much towards alleviating over-population in India.”

*Population Policy for India.*—Population planning will play the most important part in the economic development of the country. It has to precede or at least go side by side with development planning. “The rate of economic development and the speed at which resource utilization take place in course of an economic plan should be properly synchronized with the rate of population.” We have to think of absorbing not only the existing population in productive employment but also the large numbers of new comers. In fact, the country needs a definite population policy which should deal effectively with the net addition to the existing high population. otherwise, all our plans for economic development will come to nothing. The National Population Policy can be on the following lines :—

Firstly, while making plans for our economic development, we should take into consideration not only the existing but also the future population.

Secondly, while we introduce measures to bring down the death-rate, we should also check the growth of population or take steps to decrease the birth-rate.

Thirdly, a population planning commission is necessary for our country. Only such a permanent body will be able to formulate a population control policy and introduce measures for its implementation.

Fourthly, family planning should form an important part of the Community Development Programme. People should be made conscious of the fact that it is indispensable for the economic development of their country.

Fifthly, a large number of family planning clinics should be started in the villages. For every 10 villages, there should be one family planning clinic.

Lastly, there is the crying need of wide spread education among our masses. Adult education should go side by side. It will make the people broad-minded and enable them to realize the necessity and indispensibility of family planning for the success of proper economic development of the country.



### Questions and Projects.

1. Discuss the factors which determine the density of population in India.

2. Prepare an exhaustive pamphlet about the growth of population in India during the last 50 years. Also mention in which decade, there was the greatest growth and net addition and what were its causes. Give the statistics of population of the different states separately and mention why some states have greater density than others. Give also the statistics of the occupational distribution of population in the country and also the figures of the distribution of population between villages and towns. Wherever you give statistics of any type in this pamphlet, try to represent each set of figures by means of a diagram.

3. What are the causes of high birth-rate and high death-rate in India ?

4. The death-rate has gone down much more than the birth-rate. Why is it so ?

5. Is India over-populated ? If so, what remedies would you suggest to solve the problem ?

6. Do you think that the rapid growth of population in India stands in the way of her economic development ? If so, how ?

7. Make out a case for population control in India.

8. "In India, there is really no problem of over-population at the present time." Examine this view.

9. What is really the problem of population in our country ? What measures should be adopted to tackle this ?

10. What is family planning ? Discuss its need for the country.

11. What measures should be adopted to popularise family planning programme ?

12. What has the Government done so far to tackle the problem of population ?

13. What provision has been made in the First and Second Five-year Plans ?

14. Do you think that the Government policy is proving a success in solving the population problem ? If not, why not ?

15. Is India subject to increasing population and diminishing food production at the present time ? If so, how ?

## CHAPTER III.

### **Importance of Agriculture in India. Agricultural Production.**

*Importance of Agriculture in India.*—According to the census of 1951, out of a total population of 35·6 crores, 24·9 i.e., about 70 per cent of the people mainly depend on agriculture for their livelihood. About 47 per cent of the total national income of India, is obtained from this industry. Our country is the largest producer of sugar-cane, tea and groundnut, the second largest producer of raw jute and rice and we are third in respect of the area used for wheat production in the different countries of the world. Our industries get most of the raw materials from the agriculture e.g., jute, raw cotton etc. Our export trade also mostly depends on agricultural products e.g., tea, oil seeds, groundnuts, linseed, tobacco, etc. The export of these agricultural products enables us to get machinery and manufactured goods. The internal trade of the country also depends on agricultural production.

If the agriculture flourishes, the masses have more money to purchase the products of industry. The Government are able to get much more as taxes. Thus, it is upon the prosperity of agriculture, depends the well-being of most of the people of this country.

More over, most of the work connected with agriculture is done in open air and it is therefore a health pursuit, unlike industries which undermine the health of the workers owing to congestion etc.

For all these reasons, the Indian Government is giving top priority to the development of agriculture. The First Five-Year Plan made the biggest provision for the improvement of agriculture. This is how agriculture is the basic and most vital industry and occupation of the people of this country.

### **Agricultural Production.**

First we give some statistics regarding area under principal crops, yield and the general crop pattern.



| Crops            | Average area<br>(000 acres)<br>1954-55 | Average Production<br>(000 tons)<br>1954-55 |
|------------------|--|---|
| Rice             | 77,424                                 | 24,209                                      |
| Jowar            | 43,456                                 | 9,092                                       |
| Bajra            | 27,350                                 | 3,555                                       |
| Ragi             | 5,747                                  | 1,778                                       |
| Maize            | 9,325                                  | 2,944                                       |
| Small millets    | 13,680                                 | 2,424                                       |
| Wheat            | 26,842                                 | 8,539                                       |
| Barley           | 7,999                                  | 2,786                                       |
| Gram             | 20,991                                 | 5,125                                       |
| Sugarcane        | 3,939                                  | 5,646                                       |
| Potato           | 639                                    | 1,600                                       |
| Tobacco          | 837                                    | 871   |
| Sesamum          | 6,460                                  | 592   |
| Groundnut        | 12,647                                 | 3,823                                       |
| Rape and Mustard | 5,665                                  | 962   |
| Linseed          | 3,290                                  | 388   |
| Castor seed      | 1,273                                  | 112   |
| Jute             | 1,273                                  | 3,153                                       |
| Cotton           | 18,346                                 | 4,298                                       |

Rice occupies 22.9 per cent of the total cropped area

|               |      |   |   |   |   |
|---------------|------|---|---|---|---|
| Wheat         | 7.5  | „ | „ | „ | „ |
| Other Cereals | 30.4 | „ | „ | „ | „ |
| occupy }      |      |   |   |   |   |
| Pulses        | 15.2 | „ | „ | „ | „ |
| Groundnut     | 3.4  | „ | „ | „ | „ |
| Other         | 5.2  | „ | „ | „ | „ |
| oil seeds }   |      |   |   |   |   |
| Sugar         | 1.5  | „ | „ | „ | „ |
| Cotton        | 4.6  | „ | „ | „ | „ |
| Jute          | 0.5  | „ | „ | „ | „ |
| Other crops   | 8.8  | „ | „ | „ | „ |

### Description of Main Crops.

Now we describe below the main crops of India in regard to their importance, total volume of production and region of their production. They are described under the following headings (1) Food Crops (2) Non-food Crops (3) Plantation Crops.

## I. Food Crops.

1. *Rice*.—It is the most important crop of India because it is the main food of the majority of the people and occupies the biggest area (23 p.c.). Among the food grains, it is produced in the largest quantity. In 1956-57, the production of rice was 28·14 mill. tons which is about 50% of the total cereal production.

Its production is very much influenced by monsoon. It is grown in river deltas, low lying coastal districts and areas subject to floods e.g., West Bengal, Bihar, some parts of U.P. and Punjab and the deltas of Mahanadi, Godavari, Krishna, and Cauvery.

After China, we are the largest producer of rice. But as compared to the other rice producing countries of the world, our average yield of rice is very low. It is about  $\frac{1}{4}$  of that in Italy and  $\frac{1}{3}$  of that in Japan and Egypt. It is for this reason, that the Japanese method of rice cultivation is being adopted in our country and we are trying to achieve self-sufficiency in rice. In Cuttack, the Central Rice Research Institution was established in 1946 to help in increasing the rice yield. The Agricultural Departments of the various States have introduced a large number of high-yielding improved varieties.

2. *Wheat*.—It is next in importance to rice and is the staple food of the inhabitants of Punjab and U.P. It is considered to be more nutritious than rice and that is why the people of these two states are better in physique. In 1956-57, its total production was about 9·07 mill. tons. Its production depends upon irrigation. In the pre-partition days, Punjab and Sind were known for its high yield owing to canal irrigation. Wheat is chiefly produced in Punjab, U.P., Rajasthan, Madhya Pradesh, Bihar and Bombay etc. India is next to U.S.A., and Canada in the production of wheat. About 20 years back, wheat was exported from India. Now, we have to import it from outside.

3. *Millets*.—Their main varieties are *Jowar* and *Bajra*. They are considered to be inferior and coarse grains and are cheap in price. They provide food for the poorer classes and fodder for the cattle. In the states of Rajasthan, Madras, Andhra, Bombay and Hyderabad, they are the staple food of the masses. They are mostly grown in the dry areas of U.P., Raj-



asthan, Madhya Pradesh, Andhra, Madras and Hyderabad. In 1956-57, the total production of millets was 10·36 mill. tons.

4. *Pulses*.—They are extensively grown throughout India. They form an important part of the food of the people of this country particularly in case of the vegetarians who consume them for the sake of proteins. Some of them are a nutritious fodder for the animals and others are grown as rotation crops to restore the fertility of the soil. Gram is one of the most important pulses grown in this country. Pulses are mainly grown in U.P., Punjab, Bombay, Madhya Pradesh and Bihar.

5. *Barley*.—It is used as a food both for man and cattle but only the poor people consume it though it is more nutritious than rice and millets. It is mostly grown in U.P., Bihar, Rajasthan and Punjab. It is becoming a commercial crop because it is being used for preparing beer.

6. *Maize*.—It is mainly grown in U.P., Punjab and Rajasthan. It serves as food to the people of these States.

7. *Sugarcane*.—India is the original home of sugarcane. Also, the area under sugarcane is larger in our country than in any other country. The sugar industry has expended a lot because it has been enjoying protection since 1932. It has now become the second biggest industry of the country. There are 160 factories employing more than two million people and producing sugar worth Rs. 120 crores per year. About 73 p.c. of the sugar is produced in U.P. and Bihar and the rest in the Orrisa, Punjab, Andhra, Madras and Bombay. It is a very important food crop of the country. It is very paying for the cultivators and has helped in the growth of a major industry of the country.

But the price of Indian sugar is high owing to the poor yield and recovery of cane and relative inefficiency of the industry. In U.P., there are about 80 such sugar factories which are uneconomic and are being kept alive by special aid. The Government have been taking a keen interest in the progress of this industry. Some state governments have fixed up the minimum price of sugar-cane to be paid to its growers. Sufficient attention is being paid to the question of using its by products such as molasses, waste cane and press mud.

8. *Other food crops*.—Among them are included fruits, vegetables, spices and condiments. India grows a large variety

of fruits such as mangoes, apples, oranges, plums, peaches and apricots etc. Fruit industry has not much developed and their supply is short in comparison to the demand because they are an important element of the diet of the well-to-do people. We have a large variety of vegetables growing in our country—Potatoes, onions, brinjals, cabbages, cauliflowers, turnips and tomatoes etc. Spices are mainly grown in the extreme south of India, though certain varieties are cultivated in all parts of the country. Pepper in Malabar, Travancore, South Canara and Coorg etc., Chillies in Madras, northern Bengal; Ginger in the area of Malabar coast, Surat and some parts of Bombay, Bengal and U.P.; Cardamom in Madras, Travancore, Mysore, Coorg and Bombay; Cloves in the foot hills of the Western Ghat. Spices have always formed a part of our export trade. In 1952-53, spices worth more than Rs. 20 crores were exported.

## II. Non-food Crops.

1. *Cotton*.—It is the premier fibre crop of India. India is only second to U.S.A., in the production of cotton. It is the most important commercial crop of the country. It is chiefly produced in Bombay, Madhya Pradesh, Hyderabad, Punjab, and U.P. About 83 lakh tons of cotton were produced in 1956-57. In our country, mostly short and medium staple cotton is being grown and not the long staple one which is suitable for the manufacture of fine cloth. Before partition, we had the supply of long staple cotton which is grown in Sind and West Punjab (now parts of Pakistan). So, we have suffered a loss both in quality and quantity, and we have become importers of cotton where as we used to be its exporters before partition.

Our Government are trying their best to improve both, the quality and quantity of its production and there has been a fairly good improvement in regard to both. The production of long staple cotton has become four times and of the long staple cotton a little less than double. In 1948-49, the production was about 18 lakh bales and in 1956-57, it went up to 47 lakh bales.

2. *Oilseeds and oil bearing nuts*.—Groundnuts and Groundnut oil—About 3 million tons of groundnuts are grown every



year. India is the biggest producer of this. Both, groundnut kernel and oil are exported and help us to get a fair amount of foreign exchange.

*Coconuts and Coconut oil.*—Their total production is insufficient for our requirement and therefore, they have to be imported.

*Linseed.*—It is produced in most parts of the country. In 1951-52, its production was 328 thousand tons. It is much required in paint industry and therefore, there is great demand for this.

*Cotton Seed.*—Efforts are being made to produce oil for industry and cotton cake for animals from cotton seed. So far, most of it is used for feeding the cattle.

*Castor seed and Castor oil.*—In 1954-55, its production was about 112,000 tons. Major part of this commodity is exported and only about 30% is used for producing oil and home consumption.

*Sesamum (Til or Jinjily).*—It is chiefly grown in Madras and Uttar Pradesh and to some extent in Rajasthan, Hyderabad and Central India. In 1954-55, its production was 592,000 tons. It is all used for home consumption.

*Rape and Mustard.*—They are mostly grown in U.P. They are also produced in Bihar, Punjab, Assam and Rajasthan.

*Tobacco.*—India occupies the third position in the production of tobacco. U.S.A. and China occupy the first and the second position. In regard to the production of tobacco, India is divided into five zones, viz., (1) North Bihar and Bengal, (2) the Charotar Area (Gujarat), (3) Nipani (Karnatak), (4) Guntur (Andhra), (5) South Madras. These are the five areas of commercial importance. Tobacco is used for cigarettes, bidis, hukka, chewing and snuff. In 1950-51, tobacco worth Rs. 71 crores was produced. Now, tobacco has begun to be exported and in 1953-54, its exports were of the value of Rs. 11 crores. In 1956-57, 3.1 lakh tons of tobacco was produced. So far, the quality of tobacco produced in our country is coarse and unsuitable for the manufacture of cigarettes. Effort is being made to improve its quality so that the cigarette industry may grow.

## Plantation Crops

(1) *Tea*.—India is the second largest producer of tea in the world, the first being China. As regards exports, India occupies the first position, as 70% of her production is exported. After jute and cotton, tea is the most important exchange earner for India. Two-thirds of the total production of tea is from Assam and West Bengal and the rest of it is produced in the Kangra valley (Punjab), Dehradun District (U.P.) and in some parts of Madras and Travancore-Cochin. Total production of tea in 1954-55 was about 639 million lbs. In 1953-54, tea worth Rs. 101.5 crores was exported.

(2) *Coffee*.—India's production of coffee is about 1 p.c. of the world coffee output. Indian coffee is produced in the low hills of South India and in some areas of Orissa, Assam and Madhya Pradesh. About 50 per cent of the total average is in Mysore, 25 p.c. in Madras, 20 p.c. in Coorg and 4 p.c. in Travancore and Cochin.

(3) *Rubber*.—Its annual production is about 22,000 tons. Rubber producing areas are Mysore, Madras and Travancore-Cochin. Previously, most of it was exported and in 1936, a factory was started in Calcutta for the manufacture of tyres.

*Main Problems of Indian Agriculture*.—The most serious defect in our agricultural system is the sub-division and fragmentation of holdings. A number of causes such as growth of population, laws of inheritance and absence of alternative occupations have led to this. The average size of farms in our country is very small and is becoming smaller with the coming of new generations. The average size of a farm is 5 acres in our country as compared to that of 145 acres in U.S.A. and 40 acres in Denmark. This endless subdivision and fragmentation of holdings has been resulting in enormous waste of labour, time, energy and money. The finding of the Agricultural Labour Enquiry done in 1949-50, was that most of the holdings in West Bengal, Madras and Bihar are below two acres. In such conditions, no permanent improvements can be made and scientific cultivation is not possible. There is almost complete absence of proper fencing, field embankments, and satisfactory drainage system. Consequently it leads to soil erosion and waterlogging which do a very serious harm to the crops.



Secondly, the methods of cultivation are old and primitive because the cultivators are illiterate, conservative, ignorant and poor. They are mostly unwilling to introduce any reforms for improvement. They are fatalistic in their attitude towards life and are not desirous to remedy their defects. They use old type and worn-out implements. For example, their plough merely scratches the surfaces, and their cattle are sickly. The use of modern implements such as tractors is extremely rare in our country.

Thirdly, they are generally very poor and cannot afford to buy modern machinaries even if they want to do so. They also do not get proper seeds and the use of inferior seeds leads to low output. They have continuous cropping without manures and cannot afford to buy much of artificial fertilizers. They are not generally in favour of using bones, night soils etc. as manures. With the result, their lands are declining in fertility.

Fourthly, our farmers are too much dependent on rainfall which is very uncertain. In some years, the rainfall is so heavy that it causes floods while in some other years, it is extremely scanty resulting in drought. It is for this reason that the Indian agriculture has been described as a gamble in rainfall. There are no adequate means of irrigation either. Only about 19 p.c. of the total sown area is irrigated and the rest has to depend on uncertain monsoons.

Till recently, the system of land tenures was such that the farmers had no incentive to improve their cultivation of land. Most of the cultivators were tenants and had to pay high rents to the landlords. They were generally left with very little and it made them pessimistic and devoid of all zeal for improvement.

Seventhly, they lack in financial resources and are mostly in heavy debts. They have no money to make improvements in the land. They have to pay a very high rate of interest on their loans and it eats up most of their meagre income. Very often, they are obliged to sell their produce to the village money-lender at reduced prices. Or they sell it in the market immediately after the harvest when the prices of crops are usually the lowest because they have to pay back their debts.

Sixthly, there is no proper marketing system. The long chain of middlemen and dealers between the cultivator and the final consumer takes away a large percentage of the price of the

crops. The cultivators are able to get only about 50 to 60 per cent of what the consumers pay.

Lastly, there are not much of subsidiary industries for the cultivators. Agriculture in our country is seasonal and keeps the cultivators busy for 4 to 6 months in the year. For rest of the time, the cultivators are idle and have no proper occupations to supplement their incomes.

*Remedial Measures.*—Most of the defects in our agriculture are deep-rooted and they demand a serious and all-out effort on our part. Any programme of development in our country, must remove these defects because the main basis of our economy is agriculture.

Immediate steps should be taken to increase the size of our farms either by a method of compulsory consolidation of holdings or by having a co-operative farming or having a collective farming on the Soviet method. If it results in unemployment for some agriculturists, some other occupations must be found for them by developing cottage and small industries in the villages or by establishing large industries near the towns.

The land tenure systems need a through overhauling. It is good that the Zamindari system is being abolished. It will establish a direct relationship between the cultivators and the government and improve the condition of agriculture.

It is very essential to prevent the erosion of the soil by means of afforestation etc. Canals and tube wells should be constructed for providing good means of irrigation. More and better manures should be used for the soil.

The Government should have widespread research and devise methods to improve seeds, to have better control of pests and diseases. The cultivators should be supplied with better type of seeds and they should be familiarised with the use of better type of implements.

The village money-lender should be eliminated and arrangements should be made for the supply of finance to the cultivators. The best way is to have co-operative credit societies and multi-purpose societies. Methods of marketing for agricultural products should be improved by eliminating the unnecessary middlemen. The multipurpose co-operative societies can very well look after the marketing of crops, supply of good



seeds and manures, purchase of cattle and better implements etc.

Cottage and small-scale industries should be established to provide employment to the cultivators in their idle months. It will considerably supplement their income, and improve their standard of living.

All these measures can be implemented with success only with the fullest co-operation of cultivators who should be educated and made alive to these reforms. Only wide spread education will enlighten them and make them realize the urgent necessity of these reforms. Their education should be practical and should enable them to have improved methods of cultivation and better standard of living. In the first Five-year Plan also, there is a remark to this effect "The peasants life is not cut into segments in the way the Government's activities are apt to be; the approach to the villager has, therefore, to be a co-ordinated one and has to comprehend his whole life." Hence, the economic reforms in the agricultural organisation should be accompanied by a number of changes in the social and religious life, habits and customs of the people living in the villages.

### Questions and Projects.

1. What is the importance of agriculture in the economy of India ?
2. Show on a map of India the different agricultural crops of India in their respective regions of the country.
3. Prepare a chart showing the various crops, with area under each crop and the average annual production.
4. What are the two chief food crops of India ? Where are they chiefly grown ?
5. What are the main non-food crops of India ? Which of them are the most important from the point of foreign trade ?
6. Why is tea considered to be of vital importance in our economic life ?

7. Discuss the main problems of the Indian agriculture ?
  8. Why is there so much sub-division and fragmentation of lands in our country ? How is this the most fundamental defect of our agricultural system ? What steps should be taken to get over this difficulty ?
  9. What are the various remedies suggested for the improvement of our agricultural system ?
  10. How can the spread of education in our villages help to bring about an all round improvement in the rural areas ?
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## CHAPTER IV.

### Land Policy in India and Recent Changes.

Land tenure and land tenancy are two allied problems which have always influenced the condition of agriculture in the various countries. Land tenure is the legal or customary system under which the land is owned. Land tenancy is system under which the land is cultivated and the product divided between the owner and the cultivator. In a study of the problem of land tenure, we have to understand the question of ownership, sale or mortgage of land. For an agricultural country, system of land tenure is of very great importance. We can very well understand this from a remark in the U.N.O.'s report on land reform. The land tenure system "may reduce the standard of living of the peasant by imposing on him exorbitant rents or high interest rates ; it may deny him the incentive or the opportunity to advance or it may check investment because it offers him no security. It may lead to the prevalence of farms which are too small to be efficient units of production or too large to cultivate intensively."

*Systems of Land Tenure.*—The systems of land tenure prevailing in India can be broadly divided into three categories, viz., (1) the Ryotwari System, (2) the Mahalwari System, and (3) the Zamindari System.

*Ryotwari System.*—Under this system, the State is the owner of all lands and the cultivators are mere occupants having the right, 'to use, transfer and relinquish the occupancy of the holding'. As the cultivators hold the land directly from the state, there exists no landlord or any other intermediary. The rates of rent are determined by the government and the cultivators pay it directly to the latter. The payment of rent or the revenue is the individual tenant's responsibility. The assessment of revenue is done after every 30 or 40 years when the rates of revenue are revised and fixed by the government on each tenant separately. In most of the cases, the occupants themselves cultivate the land. In very few cases when their holdings are

large, they sublet a portion of it. Ryotwari system prevails in the states of Bombay, Madras, Assam and parts of Punjab. This system is almost the same in all these states except that there are some differences in regard to the principles of assessment.

*The Mahalwari System.*—Under this system, land is held jointly by the village communities. This system puts the responsibility of paying the land revenue not only on individual co-sharers of the village land or 'Mahal' but jointly on the village community as far as the law is concerned. The whole village or state is assessed by the government to a particular sum of revenue and all members are jointly and individually responsible for the payment of land revenue. The cultivators are the co-sharers and they are like the peasant-proprietors of the Ryotwari system. "The Mahalwari system with peasant-proprietorship and medium size holdings presents an ideal system for the conversion into a large-scale co-operative farming." In Punjab, one of the members of the village community is appointed as the headman or the lambardar of the village and is made responsible for the collection of land revenue. Under the Mahalwari system also, there is periodical settlement of land revenue. In Punjab, it is done after a period of 40 years. The method of fixing the land revenue is almost the same as in Ryotwari system. The lands are surveyed, classified and the gross produce of each soil is determined. Then its money value is determined on the basis of average prices. Out of this sum, the value of the net produce or net assets is calculated. The share of the government is generally fixed at one-fourth of the net assets. In U.P., the government's share is 40 p.c. of the net assets. This system is prevalent in Madhya Pradesh, Punjab and the Agra Division of Uttar Pradesh.

*The Zamindari System.*—Under this system, the land is owned by the Zamindar or the landlord who is responsible for the payment of revenue to the government. The government is entitled only to get land revenue and zamindar has the right to give away the lands on rent to the cultivators. There are two forms of this system. In one case, it is known as the Permanent Settlement when the land revenue is fixed permanently and can not be increased by the government. Of course, the landlord could charge higher rents from the tenants. This form of zamindari system used to be prevalent in West Bengal, Bihar, Orissa, parts of Madras, Assam, and U.P. The other form of



the Zamindari system in which the revenue paid by the Zamindar, was revised from time to time, prevailed in Oudh, Agra, U.P., and M.P. In Madhya Pradesh, some persons who were originally farmers of taxes, under the Marathas, were recognised as landlords by the government and they were known as Malguzars.

*A review of the three systems.*—Zamindari system, as it used to prevail in India, resulted in exploitation of the cultivators and became an important cause of the backwardness of the country, because very few landlords lived in the villages. They did not care to improve their lands. They used to oppress their tenants by charging high rents from them. It is for these reasons that the Zamindari system became notorious and was widely criticized. The Ryotwari system is considered to be better because under this system, the cultivator remains in direct contact with the state. As he has permanent interest in the land, he tries to improve it and increase the produce. He is required to pay less to the government because the middleman and his share is eliminated. The government also feels more interested in the improvement of land. But under this system, the periodic assessment of land revenue creates uncertainty in the minds of the cultivators. In the assessment of land revenue, much is left to the discretion of the settlement officers who sometimes make assessment in an arbitrary way or by mere guess work.

The effect of the mahalwari system are almost the same as those of the ryotwari system on agriculture and cultivators. If the lands are cultivated by the owners themselves, the benefits of the peasant proprietorship are there. If the land is let out on rent, the advantages of the system are no longer there. Hence, all these systems suffer from one or the other defect and we have yet to think of an ideal system of land tenure free from all defects.

*Land Tenancy in India*—In our country, most of the owners of lands used to let out their lands on rent to cultivator who were known as tenants. Let us now review the terms and conditions of renting out the lands to the cultivators or tenants. Owing to the differences in tenures, there were two types of tenants viz. (1) Occupancy tenants and (2) Non-occupancy tenants or tenants-at-will.

(1) *Occupancy Tenants*—These tenants have a right to cultivate the land permanently. The rent that they have to pay, is fixed and can not be increased. They enjoy absolute and hereditary tenancy and the Zamindar gets only a fixed amount of rent which is very moderate. Such tenants can not be turned out of the land. They can even mortgage or sublet the land to others. They can not transfer it. As they have a permanent interest in the land, they can even improve it. They enjoy a right of sub-ownership and their position is more or less like that of peasant proprietor under the ryotwari system.

(2) *Tenants-at will*—They can cultivate the land only as long as the landlord allows them. The landlord can eject them whenever he likes and or can increase the rent to any extent. Their position is thus much worse than that of the occupancy tenants. They have to pay generally very high rents because there is a keen competition for land among them. Yet they have no fixity of tenure. Their position is so precarious that it has created difficult tenancy problems in the country. Under this system, the tenants are very much exploited because they have to pay such excessive rents which are morally unjustifiable and yet they are under a constant threat of ejection. Consequently, they have no interest in the land and do not make any improvements in it.

Sometimes, such tenants cultivate the land under the system of *batai* or crop-sharing. They are known as crop-sharing tenants or bargadar or adhiars. They are also tenants-at-will as they have no security of tenure and have to pay very high rents. They have to give to the landlord a particular share of the produce which depends on the quality of land. The share of the landlord is higher on a good quality land.

*A good system of land tenure.*—The cultivator should have fixity of tenure and freedom of transfer. He should be required to pay reasonable rents. Fixity of tenure will ensure the security of the cultivator. The latter is quite safe in possession of the land as long as he pays his rent regularly. If this right is heritable, he will have a permanent interest in the land. He will work hard to improve the land by manuring and irrigating it properly. It will increase the produce from the land.

A tenant should be required to pay only fair and reasonable rent. The rent should be fixed for a long period so that the



landlord is not able to snatch away the increased production from the land. The court or the judicial body should have the right of fixing the rent.

A tenant should be provided with the freedom of sale or the right of transfer of the land by sale or mortgage.

*Tenancy problem in India.*—It is not only in Zamindari areas but very often in the ryotwari areas also the land owners let out their lands to the cultivators. As there are very few occupations in our villages, most of the people take to agriculture. It has increased the number of cultivators immensely and has added to the pressure on land. Most of these cultivators are tenants-at-will. Before partition, the province of Punjab was considered to be full of peasant-proprietors and yet about 50 p. c. of its cultivators were tenants-at-will. After partition, the new landlords have also rented out most of their lands. In other states, the position is still worse because the number of tenants-at-will is higher. The zamindars charge very high rents from the poor cultivators and harras them in other ways also. All these practices have created a great discontent among the cultivators. In order to give relief to poor cultivators and improve the condition of agriculture, the State Governments have passed a number of laws.

### **Tenancy Laws.**

Though these laws differ from state to state, yet their main objective is to protect the interests of the cultivators. They have been passed mainly to ensure fixity of tenure and fair rents to most of the tenants. Generally, the actual cultivators of the land have been made its owners. The Bombay Tenancy and Agricultural Lands Act of 1948 confers tenancy rights on certain groups of tenants and puts them into the position of protected tenants. All those tenants who have cultivated lands personally for six years before January 1945, are considered as protected tenants. They enjoy the rights of (1) purchasing a holding of a maximum size of 50 acres at reasonable prices, (2) exchanging their lands with other protected tenants in the same village, (3) erecting the farm-houses and (4) receiving compensation on being ejected, for improvements made by them. Thus they have a permanent and heritable tenure and cannot ordinarily be ejected. The tenure of

ordinary tenants has been fixed at 10 years at a time. Tenancy laws with almost similar provisions have been enforced in Hyderabad, Madhya Pradesh and some other states. The Punjab Tenants Act of 1950 provides security from eviction for at least five years. A particular class of tenants who have been ejected from lands, can be reinstated if the landlord does not cultivate the land personally. In the state of Bombay, a tenant cannot be asked to pay more than one-fourth of the produce in case of irrigated lands and one-third of the produce in other lands. In Orissa, the occupancy tenants are to pay a rent between  $\frac{1}{3}$  to  $\frac{1}{5}$  of the gross produce according to the Tenants Protection Act of 1948. Similarly, the rents have been reduced in the Zamindari areas in the State of Madras. According to the Andhra Tenancy Act of 1956, a cultivator is to pay a maximum rent of 45 p.c. of the gross produce in case of commercial crops and  $28\frac{1}{3}$  to 50 p.c. in case of other crops.

In order to improve the condition of the crop-sharing tenants, occupancy rights have been granted to them in Assam according to the Assam Adhiars Protection and Regulating Act of 1949. In Bengal, Conciliation Boards have been set up by the Government to settle disputes between the bargadars and owners, about rent, ejection and supply of seeds etc. In Bombay and Andhra, the Government can convert the crop rents into cash rents.

As a result of all these acts, the tenants have been provided with such rights as security of tenure, payment of fair rents, and right to buy their holdings at reasonable prices. In the previous Zamindari areas, most of the cultivators have become peasant proprietors. Most of the occupancy tenants have become owners of land cultivated by them. The non-occupancy tenants have mostly become the tenants of the State.

The clear result of these acts is an increase in the number of land-owners in the country. Most of the actual cultivators have been made owners of land. But some restrictions have been placed upon them also in regard to the selling, transferring and mortgaging of land. In most of the States, the land cannot be sold to non-agriculturists. Second restriction is that the lands of buyers should not exceed a particular limit. The buyer's holding should not increase beyond 30 acres in U.P., 48 acres in Bombay, 50 acres in Madhya Pradesh, 25 acres in West Bengal, 150 bighas for a family in Assam and



three times the family holding in Hyderabad. Another restriction is that the seller should not be left with lands below a particular limit. This minimum limit has been prescribed in the states of Bombay, Andhra and Madhya Pradesh. There are restrictions on the renting out of lands by new owners and subletting of lands by tenants, so that the number of small tenants may not increase too much. These restrictions are quite strict particularly in the case of land holders belonging to the aboriginal tribes and back-ward classes.

### **Abolition of Zamindari.**

*Necessity of the Abolition of this system*—As has been described above, Zamindari system was full of defects. It had created a class of reactionaries who hindered the progress of the country. Most of the Zamindars were the stooges of the British Government and helped the foreign rulers to govern the country. They oppressed the cultivators and charged very high rents from them owing to the great demand for land. Zamindars also took advantage of the laws passed by the British government and very often ignored the customary rights of the cultivators. They charged rents even in the years of famine and drought. It made the condition of the cultivators miserable and pitiable. On the other hand, the Zamindars lived a life of luxury and pleasure. Sometimes, they migrated to big cities and towns and left the management of their lands to their clerks and gumashtas. This type of absentee landlordism led to an utter neglect of lands and there was a great decline in the produce from lands. Deploable result was that land was no body's concern. The Zamindars were interested only in collecting rents. The cultivators had neither an incentive nor any money to improve the land.

The government lost contacts with the actual cultivators and did not look after their interests. The miserable plight of peasants was no concern of theirs. They did not care about the declining produce from the land, or deteriorating condition of the rural areas.

This system produced an adverse effect on the economic condition of the country as a whole and put great obstacles in the general progress of the country. Hence, not only a reform but complete abolition of this system is necessary. It is for this reason that the laws for the abolition of Zamindari have

been passed by the State Governments and they are being implemented by and by.

*Zamindari Abolition Legislation.*—The Acts passed by the various States to abolish the Zamindari system, are almost of the same pattern. The number of big estates is not so large as that of small Zamindars and intermediaries. The Zamindars have been allowed to retain their home-farms, buildings and other properties like tanks and enclosures etc. In U.P. and Madras, home-farms have to be cultivated personally. According to these acts, forests, fisheries, waste lands, mines, minerals, private *wagfs*, and trusts are also to be taken over. Only, the estates of the religious, educational and charitable institutions have been spared.

As it is compulsory under the Indian Constitution to pay compensation for any private property taken over by the Government, therefore the Zamindars are being paid compensation for their lands. The amount of compensation differs from one state to another and is to be paid partly in cash and partly in the form of interest bearing bonds maturing in 20 to 40 years. The basis for the calculation of compensation is the 'net income' from each Zamindari, in the States of Assam, Bihar, M.P., and Orissa. In U.P., the basis is the 'net assets' and in Madras, the 'basic annual sum'. The basis of the net income and net assets is the same. The estimated total amount of compensation to be paid in the seven States of Assam, Bihar, Madhya Pradesh, Madras, Orissa, U.P., and West Bengal, is Rs. 414 crores. As a result of the abolition of this system, the annual income from revenue in these, States will increase by Rs. 19.52 crores.

Methods of paying the compensation vary from State to State. In Bihar and Orissa, the compensation is to be paid in cash or bonds carrying an interest of  $2\frac{1}{2}$  p.c. and maturing in 30 years. In Madras, it is to be paid in a maximum of 5 instalments. In U.P. also, it is to be paid in bonds carrying an interest of  $2\frac{1}{2}$  p.c. and maturing in 40 years. In U.P., the tenants have been encouraged to become Bhumidars or owners of their lands by paying 10 times their rent to the government. All this money is being collected into a fund known as the Zamindari Abolition Fund for paying the compensation to the ex-Zamindars. The new landholders or Bhumidars have been given transferable rights over their land and are required



to pay 50 p.c. of their existing rent, as land revenue to the government till the next settlement scheduled to take place after 40 years. The same method has been adopted in Madhya Pradesh.

Some people consider the payment of compensation as unnecessary because the Zamindars have already exploited and rack-rented the tenants for a long time and they have played a reactionary role in the movement for the freedom of the country. It will also put the State under a heavy financial burden. On the other hand, others think that the Zamindars deserve compensation because some of them made big investments in the lands.

As a result of the abolition of the Zamindari system, India has been freed from the pernicious feudal system of land tenure. Though the tenants do not seem to be deriving any immediate gain but they will be much benefitted in the future years. The abolition of Zamindari has simplified the tenancy system. It will bring about greater social equality because it will put an end to the Zamindar class. The Zamindars will no longer be able to dominate and exploit the cultivators. The tenants will be in direct contact with the government and they will be able to enjoy greater rights and privileges, because now the state will be doing the work of fixing and collecting the land revenue. There is now a much bigger number of peasant proprietors having an independent status.

By the abolition of Zamindari system, an important step has been taken in the direction of land reforms. But much more has to be done so as to re-organise our whole agricultural system in order to increase our produce from the land and secure social justice for all. In the Five-Year Plan also, the aim of land reforms is to maximise the produce and establish a sound and broad-based social structure as is clear from the following words, "the land policy should be such as will reduce disparities in wealth and income, eliminate exploitation, provide security for tenant and worker, and finally, promise equality of status and opportunity to different sections of rural population."

*Proposals for land reform in the First Five-Year Plan.*—The Planning Commission had declared that the right of land ownership is a question of fundamental importance in the national development of our country. The reform suggested by the

Commission can be described under the following heads :—(1) Intermediaries, (2) Large Owners, (3) Small and middle owners, (4) Tenants-at-will, and (5) Landless workers.

Firstly, all intermediary rights including the Zamindari system should be abolished because they are quite unnecessary people in the agricultural organisation and do not contribute anything towards the production from the land. Secondly, the large land-holders should be eliminated as far as possible. Even in regard to the resumption of land for personal cultivation, or the future acquisition of land, there should be an upper limit. This upper limit on the holdings of an individual should be fixed differently in the various states in the light of their different conditions. Generally, the fixing of an upper limit at three times a family holding, is considered quite reasonable. If any body holds land more than the upper limit, it should be taken away from him. All this has to be done in order to secure equal social justice for all because too much of landed property in a few hands is as undesirable and unjustified as too much of wealth. Moreover, there is much shortage of land and many landless workers have to be provided with some lands. Thirdly, the small and middle type of land owners should be encouraged and helped in increasing their production. They should consolidate their small holdings and organise themselves into co-operatives. Fourthly, security of tenure should be provided to the tenants-at-will and only fair rents should be charged from them. Expenses of cultivation and other risks should be taken into consideration while fixing the rents. They should not be required to pay more than one-fourth or one-fifth of their produce. Fifthly, the landless workers should be provided with some lands obtained from those holding in excess of the upper limit. But this will solve the problem of only a small number of landless workers. Some of these people should be settled and help to organise agriculture on co-operative basis in the newly reclaimed lands. Acharya Venoba Bhave's land gift movement is likely to prove of much help to these people and the Government are therefore helping this in an indirect manner.

During the period of the First Plan, quite good progress was made in almost all States in regard to the abolition of intermediaries. Tenancy reforms of a radical nature were introduced. In U.P. and Delhi tenants have been given full security. Tenants of Bombay, Punjab and Rajasthan have been provided limited



security. But the rents have been lowered only in a few States and the work of consolidation of holdings has also made very little progress.

*Proposals for land reforms in Second Five-Year Plan.*—The main objective of land reforms in the Second Plan is the creation of Co-operative Village Management. This idea had been introduced in the First Plan period also but it could not make much progress during that period.

Some emphasis has also been laid on the question of ceiling on land holdings, as much progress had not been made in regard to this during the First Plan period. The state governments have now to take positive steps for the fixation of ceilings or the upper limit of land holdings and the determination of the size of family holdings. It is only with the government help that the fixation of ceilings and redistribution of land can be brought about effectively. "The distribution of land in excess of the ceiling among the landless and land-hungry peasants would substantially benefit agricultural production and appreciably raise rural income". Such a policy will facilitate the consolidation of holdings and prepare the ground for co-operative farming and co-operative village management.

*The Problem of Fixation of Ceilings on Land holdings.*—The fixation of ceilings on the land holdings of an individual is an important feature of the present day economic reforms. According to this policy, every cultivator is to have lands upto a fixed ceiling. Those who have bigger holdings, are to surrender the surplus land to the state. All such lands are to be distributed in the following order of priority, viz., (a) tenants displaced as a result of resumption of land for personal cultivation, (b) farmers with uneconomic holdings, and (c) landless workers.

Some states have already passed laws for fixing ceilings on land. Ceilings have been fixed at 30 acres of land in U.P., and Delhi, at 25 acres in West Bengal, at 50 acres in M.P., and Assam, and at 12 to 48 acres (according to the quality of land) in Bombay. Persons with lands above these ceilings are to surrender the surplus land to state and they are to be paid some compensation for this.

The main reason for doing this is to provide land to landless workers. Lands are to be taken away from those who have in excess of their requirements, and given to those who are without

any lands. It will improve the economic condition of these poor and miserable people. It will also introduce greater social and economic equality among the villagers. It will tend to stabilize the village economy.

The critics of this policy are of the opinion that fixation of ceilings on land holdings and redistribution of land will do more harm than good. Much land may not be available like this. The surplus that would be available would be in small scattered patches. Also, the state will have to pay large amounts as compensation to those landowners who have surplus lands but they are cultivating it themselves. Moreover, the ceiling on land will have to be revised over and over again in accordance with the change in agricultural yields and prices. Thus, this policy will give rise to all these problems of great magnitude which will not be easy to solve. It is also likely to lower the efficiency and decrease the production in agriculture side, because the advantages of large scale cultivation and working zeal of private ownership will no longer be there. It will also increase the number of uneconomic holdings and the pressure on land will also be greater.

According to these critics, the landless workers and other unemployed people in the villages should not be provided with the so called surplus land but they should be employed in such occupations which are more paying and beneficial for the country's economy. They also argue that if a ceiling is to be fixed on land, a similar limit should be imposed on the possession of their kinds of income-yielding assets. The idea of fixing a ceiling on the ownership of all kinds of property appears to be quite reasonable. But the other arguments of these critics against the fixing of ceilings on land holdings are not very convincing.

*Bhoodan Yajna or the Land Gift Movement.*—Acharya Vinoba Bhave, a well-known disciple of Mahatma Gandhi, started the “Bhoodan Yajna” or the land gift movement in order to find a peaceful solution to the problem of landless workers. The movement mainly consists in collecting land gifts from land owners by making an appeal to their sense of justice and duty towards the poor and miserable landless workers. All such lands collected through these voluntary gifts are distributed among the landless agricultural workers. Along with the land,



they are also provided with cattle and implements to enable them to start cultivation. They become owners of land and are no longer dependent on others.

Acharya Vinoba Bhave started this movement in 1951 and since then he has been on his walking tours in rural areas for collecting lands. He had declared his aim of collecting 5 crores acres of land by 1957 so that each family of agricultural workers could be given 5 acres of land. This movement is gradually gaining in strength and "Bhoodan Samitis" have been formed all over the country. The Central and the State Governments are helping this movement in various ways. Some state governments have passed laws to facilitate gifts of land and the distribution of such lands among landless workers.

By February, 1955, about 37 lakh acres of land had been collected. Bihar's contribution is the biggest with 22 lakh acres. This movement provides a good solution not only to the economic problems of the poor landless workers in the villages but also creates a proper type of atmosphere in our rural areas. It has great influence on the moral life of the people. It removes the main cause of conflict and backwardness in the rural areas and makes the villagers peaceful members of society. It teaches them to love each other and to be good neighbours and responsible citizens. Hence this movement has great possibilities of bringing about a rejuvenation of our rural people but it has to be supplemented by other reforms in the rural organisation.

### Questions and Projects.

1. What is the importance of the land tenure system in the agricultural system of a country ?
2. What systems of land tenure have been prevalent in India ?
3. Make a comparative study of the Mahalwari, Ryotwari and Zamindari systems of land tenure in India.
4. Distinguish clearly between the tenants-at-will and the occupancy tenants.
5. What would be an ideal system of land tenure ?
6. Prepare a pamphlet on the land tenure systems of your state, giving a description of the various systems prevalent in the state. Also mention the recent changes that have taken

place there and describe their effects on the condition of agriculture.

7. Describe the proposals for land reforms in the First Five-Year Plan. To what extent they have been implemented ?

8. Give the main features of the tenancy legislation passed in recent years in the different states.

9. Why was it considered necessary to abolish Zamindari System ? How has the abolition been carried out ?

10. What proposals for reform are there in the Second Five-Year Plan ?

11. What do you know about the idea of fixation of ceilings on land holdings ? How is it considered to be a wrong thing ?

12. Give the main features of the Bhoodan Yajna movement of Acharya Vinoba Bhave. How far has it been a success ?

13. Prepare a pamphlet after making a thorough study of the agricultural system of your district. Make a special mention as to what extent have the new tenancy laws, fixation of ceilings and consolidation of holdings been implemented, and if there is any improvement in the condition of the people.

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## CHAPTER V.

### Cottage and Small Scale Industries.

*Meaning and Classification.*—As defined in the report of the Fiscal Commission of 1949-50, a cottage industry is one which is carried on generally in the home of artisan himself or in small workshops mostly with the help of the members of the family, either as a whole time or part time occupation. In such an industry electric power is not used and the number of workers is not more than 10. On the other hand, a small scale industry is mainly operated with hired labour. It has only a small number of workers unlike a large scale industry. Generally, it is operated with electric power but it does not have more than 50 workers. A cottage industry is different from a small scale industry in several other respects. In a cottage industry the work is done mainly by an artisan and his family members and hired workmen are seldom employed. But in a small scale industry, the work is done mainly by hired workers. Another difference is that “cottage industries are generally associated with agriculture in rural areas and provide whole-time occupation only in urban areas; small scale industries generally provide whole-time occupation to their workers and are located in urban or suburban areas.”

The cottage industries can be classified into rural and urban and then each one of the two can be further subdivided into part-time and whole-time occupations. Part-time cottage industries in rural areas are generally basket-making, rope-making, hand-loom weaving. These industries are supplementary occupations for agriculturists. The whole-time rural cottage industries are the well-known village crafts such as pottery, black-smith, carpentry, oil-pressing by ghanis, tannery, cart-making, hand-loom weaving etc.

Cottage industries in the urban areas are hand-loom weaving, brass and bell metal industry, toy-making, wood and ivory carving industry, gold and silver thread industry.

In the same way, the small-scale industries can be classified. Small scale industries which are part-time occupations of agriculturists, are rice and floor mills, Khandsari factories, gur-making etc. There are very few small scale industries in the rural areas which provide whole-time occupation to the people. Small scale industries in the urban areas are small hosiery plants, engineering factories, furniture making industry etc. All these are whole time occupations.

### **Some important Cottage and Small-Scale Industries of India.**

*Handloom Industry.*—According to the Fact finding Enquiry Committee of 1941, there were 20 lakh hand looms in India. About 4/5th of India's textile industry's labour are employed in this industry. This industry provides employment to the largest number of people, only next to agriculture. In 1950-51 this industry produced 810 million yards of cloth.

This industry is being carried on in several ways. There are independent weavers operating one or a few looms. But mostly, there are small karkhanas employing hired workers and they are being organised by financiers. In some areas, weavers have become employees of merchants (Sowcar weavers). In the states of Bombay and Madras, such weavers are working in small Karkhanas. In some places, there have grown up large organisations of these sowcar-weavers and Karkhanas and they are exporting goods to foreign markets. In this industry, most of the weavers are full-time workers. This industry is now mostly getting concentrated into urban areas. With this industry, a large number of subsidiary industries such as dyeing, bleaching, gold any silver thread making, and the embroidery etc. have also grown up. Some of the well-know centres of the handloom industry in the country are Ahmedabad, Surat and Yeola in Western India, Murshdabad and Vishnupur in Bengal, Banaras and Man in U. P., Conjeevaram and Madura in Madras. The State of Madras produces the largest quantity of handloom cloth.

Handloom industry employs a large number of workers but their earnings are low. A large number of them are very often at the verge of unemployment. The weaver has to sell his cloth in the market at whatever price he can get because he has no capacity to wait. There is no marketing organisation to sell the handloom products at reasonable rates. Owing



to competition, the quality of handloom cloth has gone down at some places. Very often, the weavers are conservative and are not able to produce goods to suit the modern tastes.

In spite of these handicaps, this industry has survived in this country while it has disappeared from most of the countries during the last 100 years. Most of the weavers have adopted modern tools *e.g.*, fly-shuttle sleys, doubbies and jacquards etc. They are trying to adjust their production to modern requirements. They have to invest much less capital and their running expenses are also much less. Owing to the help of family members, there are less expenses on production. They are able to produce delicate fabrics with fine workmanship. Also, the handloom cloth is considered to be more durable and cheaper in the long run than the mill made cloth.

Recognising the importance of this industry, the government is taking steps to help this industry. The first step was the establishment of the All-India Hand-loom Board in October, 1952 to look after the interests of this industry. An excise duty of 3 pies per yard has been imposed on mill cloth and the money collected from this tax, is to be used to assist the handloom industry. A central marketing organisation with branches in all important cities of the country has been created. In the same way, an External Marketing Organisation has been set up to push up the sales of handloom cloth in so many foreign countries. Moreover, the government is extending other concessions to the handloom industry by supplying mill yarn at cheaper rates, reserving certain varieties of cloth for this industry and by charging lesser railway freights.

*Silk Industry.*—It used to be once a flourishing industry but is now in a declining state owing to the competition from the mills, change of taste and the withdrawal of the patronage of the rulers. Nowadays, the competition of artificial silk and the foreign competition of China, Japan and some European countries are not letting it grow. The chief centres of silk weaving in India are in Bihar, Assam, Madras, Punjab, U. P., West Bengal, Mysore and Kashmir. In Benares (U.P.) there are 25000 looms and it is known for its silk saris. Bhagalpur (Bihar) is famous for tassar silk. Other well-known centres of silk weaving are Murshidabad (West Bengal), Berhampur (Orissa) and Bangalore (Mysore). The Government has extended some help to this industry also. For this purpose

they have set up the Central Silk Board and have imposed high import duty on foreign silk.

*Woollen Industry.*—The main products of this industry are carpets, blankets, shawls, pashminas and pattus. When this industry was in a flourishing condition, Indian carpets and Kashmir shawls were well-known even in foreign countries. But both of them are not so popular now on account of the appearance of cheap machine made goods. Yet the manufacture of these things is being carried on in Kashmir, Amritsar, Mirzapur and Gawalior. Srinagar and Amritsar produce better type of stuff, while Mirzapur and Gawalior are known for rough products. Blanket industry is also making some progress.

*Embroidery and lace-making.*—It is mostly located in Lucknow (U. P.), West Godavri (Madras) and Darjeeling (West Bengal). This industry is in a declining state.

*Glass Industry.*—Firozabad in U. P., is well-known for glass bangles and other glass-wares. Similar glass-wares are made in West Bengal, Bombay, M.P., Punjab and Madras.

*Paper-making (Hand-made)*—It is another very old industry of our country. This industry declined owing to the competition from mills. The Government is trying to revive this and its important centres are in Madras, Andhra, U. P., Manipur, Bombay and Kashmir. This industry can make some head way if the pulp is supplied by paper mills.

*Metal Industry.*—This industry is as old as our civilization. In villages, the blacksmiths prepare implements for agriculturists. In towns, it has been in the form of a cottage industry making kitchen utensils, knives, scissors and other articles of daily use. Moradabad in U.P. and Jagadhari in the Punjab are well-known for kitchen utensils.

*Village oil Industry.*—In our villages, oil extraction is carried on through *ghanis*. It is estimated that there are about 4 lakh *ghanis* in our country with a crushing capacity of about 20 lakh tons of oil seeds per year. The largest number of *ghanis* (231,430) exist in the state of Madras. Some people are of the opinion that there is less wastage of oilseeds and oils in getting our oil from *ghanis*. Also the *ghani* oil is considered to be better in quality.



*Palm Gur Industry.*—Palm gur development schemes are in operation in most of our States. It is estimated that there are about 5 crores of palm trees in our country. If this raw material is fully utilized, it can add much to our natural wealth and also relieve the pressure on land for the cultivation of sugarcane. Hence, this industry has great potentialities for employment and production. The Khadi and Village Industries Board is helping this industry to grow by providing technical guidance, demonstrations and financial aid. There is also the Central Palm Gur Training Institute for this purpose.

*Gur and Khandsari.*—In U.P. alone, the gur industry is able to produce about 50 per cent of the total production of the country. Other gur producing States are Bombay, Hyderabad, the Punjab and Madras. Most of our gur is consumed directly and only about 5 per cent is used for industrial purposes. This industry provides employment to about 5 lakhs of people. The biggest handicap of this industry is the highly fluctuating market. The prices of sugarcane, gur and sugar should be stabilized for a better development of this industry.

The khandsari industry is also very old in our country. Though now sugar production is being done by factories, yet the Khandsari industry has been able to exist. It has the advantage of employing less capital and requiring very little of technical skill. There is fairly good demand for Khandsari particularly because it is much used by *halwais* for preparing sweets.

*Bee-Keeping.*—It was first introduced in the southern part of our country in 1924. It made considerable progress in Travancore-Cochin, Coorg, Mysore and Madras. Recently it has been started in Karnatak and Bombay also. The Khadi and Village Industries Board is helping this industry to grow.

*Hand Pounding of Rice.*—This industry has existed well in spite of the competition of rice mills. The reasons for its survival are the following. Firstly, hand-pound rice is considered to be superior in taste and having more food value. Secondly, the rice mills most of which are of the huller type, are less efficient than hand-pounding from the point of view of



rice recovery. Thirdly, it provides occupation to the womenfolk in the rural areas and it therefore keeps down the processing cost. For the development of hand pounding industry, the recommendations of the Planning Commission are : (1) further expansion of the large scale industry to be restricted and (2) the huller type of rice mills to be gradually replaced by hand-pounding. The Khadi and Village Industries Board has also made recommendations to the Government for helping this cottage industry.

### **Problems of Cottage and Small Scale Industries.**

1. Most of these industries follow old and antiquated methods in the production of goods even upto now. Their backwardness is a great hinderance in their way and makes them inefficient.
2. They do not have adequate financial resources. It proves to be the greatest stumbling block in the way of their revival.
3. The poor artisans are not able to get good and suitable raw materials. This is on account of their ignorance and lack of money at their disposal.
4. Being highly indebted to *Sowcars*, the artisans have to sell their finished products very often to Mahajan dealers and also pay them high rates of interest.
5. There is no proper marketing organisation to sell the products of these industries both in India and outside. Being illiterate and ignorant, the artisans have not introduced designs suited to modern tastes. For this very reason, they are not able to put forward their case before the appropriate authorities. On the other hand, they very often depend upon middlemen and indigenous money-lenders for the purchase of raw materials and for buying up their finished products. This is how the indigenous money-lenders exploit them by charging high prices for raw materials and paying them low prices for their products.
6. Moreover, the cottage and small-scale industries have to face competition from imported articles and from large-scale units within the country.



## Measures suggested for the rapid development of cottage and Small-scale industries :—

1. These industries must be protected from the competition of large scale factories. It is better to reserve certain spheres of production for cottage and small-scale industries. The large scale industries should not be allowed to interfere into these spheres.

2. There should be proper arrangements to supply them good quality raw materials at reasonable prices. It will help them to produce better quality of goods at a little lower costs.

3. On account of the paucity of funds, these industries have to face great difficulties. For purchasing machinery, tools and implements they require long-term capital and for purchasing raw-materials and for the payment of wages, they need short-term loans. These industries can not offer proper securities. The Rural Credit Survey Committee is of the opinion that the 'State Aid to Industries Act' and similar other rules of the State Governments are not proving as useful as they might have been on account of procedural difficulties. The Committee thinks that these industries should be helped by the State Finance Corporations in securing long-term loans. Another recommendation of the same Committee is for the establishment of a Special Development Corporation with an initial capital of five crores which can be subscribed by the Reserve Bank, the Joint Stock Banks, insurance companies and private shareholders. Such a Corporation should have separate and specialised departments for providing technical services and managerial advice and for assisting in making joint purchases of raw materials, standardisation of products, organised marketing of finished products, distribution and publicity.

In regard to credit and finance, the International Planning Team has recommended that (a) the commercial and co-operative banks should be much more helpful in providing finance to the cottage and small-scale industries; (b) in each State, there should be a State Finance Corporation and a portion of its funds should be earmarked for the exclusive use of the small-scale industries and (c) a system of loans against the security of lands and building should be developed.

4. Co-operative organisations should be established for

purchasing raw materials and appliances, raising money for the industry and for proper marketing of the finished products.

The cottage and small scale industries are not able to get reasonable prices for their products. In the important cities of India and in foreign countries such as U.S.A., Canada, Australia, New Zealand and the Middle East countries, exhibition of the products of these industries should be held now and then. It will popularise these goods. As suggested by the International Planning Team, Export Development Offices should be set up for the promotion of exports of these commodities.

5. Adequate facilities for training and research should be provided to improve the technique of production. In this connection, the recommendation of the International Planning Team is for setting up four Institutes of Technology (multi-purpose type) to be situated geographically in a manner which would enable them to serve the entire country. The Team has also suggested the setting up of a National School of Design to serve as a centre for creative studies in designs and fashions, and a Consumer's Service Corporation to provide satisfactory channels of supply and reliable procurement service for Indian and foreign consumers.

6. The state should extend all possible help for the development of these industries. For the present, no taxes should be charged from these industries. Just as in the case of large-scale industries, a policy of full co-operation should be adopted towards them. As suggested by the Karve Committee a separate Central Ministry under a Minister of Cabinet rank should be created to look after them. The government can provide much assistance in the matter of training, research and marketing. They should patronise the cottage and small-scale industries in making store-purchases.

7. The cottage and small-scale industries should be provided with cheap electrical power. The importance of the supply of cheap power in rural and semi-urban areas has also been stressed by the Karve Committee. There should be the closest co-operation and co-ordination between the State Governments and the Union Government.

8. All those who are connected with the cottage and small-scale industries, should be imbued with a spirit of enthusiasm



and initiative. The public should adopt a patronising attitude towards these industries because they will be helping millions of poor people of the country by doing so.

*Measures taken by the Government to help the cottage and small-scale industries* — Since the attainment of independence, the Government has been giving much help to these industries. In the First Five-Year Plan and the Second Five-Year Plan, great importance has been given to the development of these industries. Under the First Five Year Plan, Rs. 30 crores were earmarked for the development of village and small industries. In the Second Five Year Plan, much greater importance is being attached to the development of these industries and Rs. 200 crores are expected to be spent for this purpose during the plan period.

During the First Plan period, the Government took two important steps for the development and expansion of small-scale industries. Firstly, the Government set apart a fairly big amount of money for the development of these industries. Secondly, the Government set up a number of All India Boards to deal with the problems of handloom industry, Khadi and village industries, handicrafts, small-scale industries, sericulture and coir-industry. Four Regional Small Industries Service Institutes with a number of branches were set up towards the end of the First Plan period. They are for the purpose of providing technical services, advice and assistance to the small industries. The All India Khadi and Village Industries Board has established Central and Regional Institutions for training of workers. It has also established a Technological Institute for village industries. The All India Handicrafts Board is helping research in new designs and patterns and arranging exhibition of handicrafts both within the country and outside. It has also organised a survey of marketing of handicrafts. The National Small Industries Corporation was also set up during the First Plan Period for marketing the products of small scale industries. This plan had in its programme, the development of 10 village industries viz. the village oil industry, soap-making with neem oil, paddy husking, palm gur industry, gur and Khandsari, leather, manufacture of woollen blankets, manufacture of hand-made paper, bee-keeping and cottage match industry.



During the period of the Second Five Year Plan, the Government's effort is to implement the basic recommendations of the Karve Committee. The idea is to provide as large a measure of increased employment as possible in the old village industries. During 1956-57, 15 new areas were selected for intensive development of village industries. This plan aims at making these industries self-supporting and co-ordinating their development with the large scale industries. Electrification of the rural areas and availability of cheap power would very much help in the attainment of these aims. The Government is also helping these industries by restricting production in the large scale sector and by differential taxation or by direct subsidies. Moreover, the small industries with a capital investment of 5 lakhs and employing less than 50 persons, would be provided technical help through Small Industries Service Institutes, Industrial Extension Service and Pilot Projects. Industrial Estates are to be set up for maintaining uniform standards in production and economic utilization of materials and equipments and ultimately to promote efficiency in small units. A sum of Rs. 10 crores have been provided for that purpose. The Government intends to set up two types of industrial estates, large ones costing Rs. 40 to Rs. 50 lakhs and the small ones Rs. 20 to Rs. 25 lakhs. The work on the 10 large industrial estates which are to be set up in Rajkot, Delhi, Madras, West Bengal, Mysore, Kerala, and U.P., has already begun. Also, there is the scheme of increasing the small Industries Service Institutes from 4 to 20 so that each State may be provided with one institute.

In order to promote the village and small industries, a number of organisations have been set up. The most important of these are, (1) The All India Khadi and Village Industries Board, (2) The All India Handicrafts Board, (3) The All India Handloom Board, (4) The Small-Scale Industries Board, (5) The Coir Board and (6) The Silk Board etc. As mentioned already in this chapter, these organisations are helping these industries in various ways.

The State Bank is also assisting these industries by providing them long, medium and short-term credits. For this purpose, a pilot scheme has been introduced in nine selected centres. Small-scale industries with capital assets not less than 5 lakhs and employing 50 workers if working with power and



100 workers if working without power, will be given credit under the pilot scheme.

The First Inter-State Seminar was held and its recommendations in regard to the development of these industries, are as follows :—

(a) National Extension Service Block-Headquarters should be developed as centers of industrial progress.

(b) Need for expanding the facilities for training personnel. A few well-equipped central training institutions should be established in each State for imparting training in various crafts and trades.

(c) Small industries should be given loans on liberal terms by the state Governments.

(d) For the development of marketing, the Seminar suggested the formation of marketing federations. Products of all cottage and small-scale industries should be marketed through one depot or emporium. It will minimise the establishment cost.

It was recently decided by the Government of India, to set up twenty small industrial estates at Community Development Block-Headquarters in the various States.

### **Importance of Cottage and Small-Scale Industries in Indian Economy.**

1. Most of the people think that we should develop only the large scale industries for the development and progress of our country and cottage and small scale industries have no place in progressive economy. But this is a false notion because small industries are indispensable for Indian economic development. The importance of these industries is obvious from the estimates of the National Income Committee. According to its estimates, in 1950-51 the value of the net output of small industries was Rs. 910 crores as against Rs. 550 crores in the case of big industries. The number of workers employed in the former, was 11.5 millions and only 3 millions in the latter. It is on these grounds that the Fiscal Commission and the Planning Commission have emphasised the special importance of the cottage and small-scale industries in the economic development of the country.

2. In an agricultural country like India, the cottage and small-scale industries have a special place. Some of them



serve as subsidiary industries to agriculture and help the cultivators to supplement their poor incomes. They provide a gainful employment to the agriculturists in the slack season because agriculture keeps them busy only for five months in a year. They provide useful work also to the family members of the agriculturist. The development of these industries can provide a second line of defence to the agriculturists. In case of failure of crops, the cultivators can depend upon these industries.

3. The development of large-scale industries over the last century has not proved much effective and no appreciable change has taken place in the country's economy which continues to be mainly agricultural. The too much dependence on agriculture has led to subdivision and fragmentation of holdings. It has proved ruinous for the country because the productivity per acre has become very low. So this excessive pressure on land must be diverted to industries. We can not afford to have many large-scale industries owing to the lack of capital. Moreover, these industries can not solve our unemployment problem because they can employ only one or two millions people more. Therefore, we should develop cottage and small-scale industries which require only a small amount of capital and can provide employment to a much bigger number of people. At the present time, we have to adopt labour-using and capital-saving occupations because they solve our problem much better. The Planning Commission is also of the opinion, that the neglect of the cottage and small-scale industries will aggravate the problem of unemployment and their revival will create enormous opportunities of employment to the agriculturists, the middle-class youths and the refugee population.

4. The large scale industries are mostly concentrated in the big cities such as Bombay, Calcutta, Ahmedabad and Kanpur etc. It has led to an unequal distribution of wealth because only these areas are enjoying the advantages of industrial development. If the industries are decentralised, there would be a wider diffusion of purchasing power among the people. But the decentralisation is possible only through the development of cottage and small-scale industries. The policy of decentralization is good from the military point of view also.



5. Generally, the people's idea is that the cottage and small-scale industries are able to produce their goods only at a higher cost as compared to the large-scale industries. But it is not always like that. The cottage and small-scale industries can produce at lower costs by using modern tools, implements and power. As pointed out by the Fiscal Commission that their higher cost of production is more or less offset by the relatively low cost of distribution. They have also the advantage of their ability to adjust the nature and the quality of their output to local demands, owing to their being in touch with the local market.

6. While comparing the two types of industries, we should take into consideration not only the *private cost* but also the *social cost*. In big industries, large investments have to be made in housing and public utilities etc. But nothing of the kind is needed in small industries as they are mostly located in rural areas or near the homes of the workers. Big industries cause wide fluctuations in employment during good and bad periods. But in the case of cottage and small-scale industries, there are no such ups and downs and also their workers are not wholly dependent on these industries. The large-scale industries suffer from a number of evils such as over crowding, congestion, slum life and constant friction between labour and capital. The Government has to adopt a number of social security measures against all these evils. But no such problems arise in case of the small industries.

7. The small industries occupy a very important place even in the economy of highly industrialised countries such as U.S.A., U.K., Germany, Japan etc. For example in U.K., the small business units employing 5 to 30 persons, produced 19 percent of the total output, and employed 29 p.c. of the total working population in that country. In Germany before the Second World War, small business units employing 5 persons accounted for 22.3 p.c. of the total number of business units of all sizes. In Japan, small establishments employing less than 5 workers accounted for 53 p.c. of the total number of workers in the country. In U.S.A. which is known to be a country of large-scale business, small business units are 92.5 per cent of the total number of business units. They employ 45 p.c. of the country's workers and handle 34 p.c. of the total business of the country. So all these facts go to show that

our country can also develop very well with cottage and small-scale industries. In fact, our country which has so much of a rural economy, is more suitable for small industries.

### **Cottage and Small-Scale Industries of Punjab.**

*Iron and Metal Works.*—Agricultural machinery such as sugarcane crushers, pans, fodder-cutters, and ploughs are manufactured in Jullundur and Batala. Iron and steel boxes are chiefly manufactured at Jullundur and Amritsar. Household utensils of copper and brass are mostly made at Hoshiarpur, Panipat, Rewari, Jogadhri and Amritsar. Though the raw materials of this industry have to be brought from other states, yet it has established itself very well owing to the large demand for all the above articles.

*Handloom Weaving.*—This industry has spread out all over the Punjab, and its various products are the speciality of different centres of this state. Durries are mostly manufactured in Ambala and Amritsar. Turbans are a speciality of Rohtak. Artificial silk is mostly manufactured at Hoshiarpur, Amritsar, and Jullundur. Wool is imported from Kashmir and Kulu to Amritsar where shawls of fine quality are made out of this. Adampur is quite well known for khadi.

*Hosiery.*—Hosiery goods such as stockings, socks, pullovers and underwears, both woollen and cotton, are chiefly manufactured at Ludhiana and Amritsar. These goods meet not only the State demand but they are also sent out to the other States. Mostly cheap and simple machinery imported from Japan is used in this industry.

*Carpets.*—Woollen carpets which are exported to foreign countries also, are chiefly made at Amritsar.

*Leather Tanning.*—There are modern type of tanneries only at Jullundur and Amritsar and in the rest of the State tanning is done in the old and primitive manner for the manufacture of shoes and saddles etc.

*Sports Goods.*—This industry is mostly concentrated at Jullundur.

*Wood Work.*—Furniture is mostly made at Hoshiarpur, Kartarpur (Jullundur district) and Rupar (Ambala). Other miscellaneous goods of wood such as toys, trays, jewellery



boxes and various types of curios are mostly made at Hoshiarpur.

*Bicycle and Sewing Machine Parts.*—In Ludhiana there are a number of small establishments for the production of these parts. Ludhiana is perhaps the biggest centre in the country and sends out to other States also. In Sonipat also, there is a bicycle factory.

As a result of the partition, the cottage and small-scale industries received a great set-back because most of the artisans in these industries were muslims who went away to Pakistan. The employers and merchants could not carry on their work on account of the migration of workers. The Government tried to save the situation by starting several training centres. Also, the trained workers from the West Punjab were encouraged to settle at these old centres of small industries. The government has also advanced loans to start such industries. It is expected that we will be able to revive most of the small industries of *pre-partition* days in this state.

### Questions and Projects.

1. What do you understand by cottage and small-scale industries? How would you classify these industries?
2. Discuss the importance of the cottage and small-scale industries in the Indian Economy.
3. Examine the view that the development of small industries will retard India's progress.
4. Prepare a pamphlet about the various cottage and small-scale industries of India, mentioning their locations, sources of raw materials, the help given by the Government, the extent of progress shown by them and the difficulties experienced by them.
5. What is the present position of the handloom industry? What has the government done to improve this industry?
6. What are the various problems facing the cottage and small-scale industries?
7. What measures have been suggested for the development of these industries?

8. Describe the steps taken by our government to help the cottage and small-scale industries.

9. Comment on the proposals regarding the delimiting of the spheres of production by handlooms and mills.

10. Describe the various small industries of the Punjab. How did they suffer a great deal owing to the partition ?

11. What efforts have been made by the government in the Punjab to revive the cottage and small-scale industries.

12. Which are the various boards and committees appointed by the union government to help these industries ?

13. Prepare a project (a pamphlet) about the cottage and small-scale industries of your district. First, you should try to visit them so that you may be able to get all information first hand. Give all possible statistics of each of them such as (1) the total investment of each, (2) the quantity of raw materials needed, (3) quantity of goods being produced, (4) number of workers employed, (5) the deficiencies of each and (6) how to remedy them.

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## CHAPTER VI.

### Large Scale Industries in India.

*General Review of our Industrial Development.*—Before the attainment of independence, rapid industrialization of the country was out of question as it was against the interest of the foreign rulers. The growth of Indian industries would have cut their source of raw material and led to the losing of the Indian market for foreign manufactured articles. Hence, as compared to the size and resources of the country, industrial development was much less. For example, per capita consumption of steel and heavy chemicals which is an index of the industrialisation of a country, is only 8 lbs. per year in India against 470 lbs. in Australia, 520 lbs. in Great Britain and 860 lbs. in the U.S.A. Only about 2 p.c. of our working population is employed in large-scale industries. The growth of towns and cities is very slow in this country. All these features indicate our industrial backwardness. The little industrialisation that we have had so far, rather has also been lop-sided. Mostly, the consumers' goods industries were developed in the past and no attention was paid to the development of capital goods industries. Some of the key industries, e.g., the manufacturing of machineries, machine tools, automobiles, tractors, prime movers and heavy chemicals, have been either altogether neglected or inadequately developed. Also, the industrial development in the past was haphazard. The industries were not evenly distributed. For example, iron and steel and coal-mining industries were concentrated too much in one corner or the eastern part of India. In the same way, sugar industry is too much concentrated in U.P. and Bihar.

In spite of the adverse conditions created by the foreign rule, there grew up some industries such as cotton textiles, jute, coal, iron and steel, sugar, matches, paper and cement etc. Even before the Second World War, India occupied the 10th position among the leading industrial countries of the world. The Second World War gave some stimulus to the growth of industries in the country. Since the attainment of independence, the industrial development of India is being carried out in a planned

manner. We describe below the extent of progress made by the various industries and the problems facing them.

### **Important Large-Scale Industries of India.**

*Cotton Textile Industry.*—It is one of the oldest large scale industries of India. The first two cotton mills were started in Calcutta and Bombay in the years 1818 and 1854 respectively, and since then, this industry has been growing continuously. It received a great stimulus as a result of the American Civil War in the 19th century. The two World Wars of the 20th century helped her to grow still further. But after the first World War, it received a set-back owing to the general trade depression and also a stiff competition from Japan. It was, therefore granted protection in 1927 which was continued till 1947.

At present, it is the biggest industry of the country. It has attained to this stature solely with the help of Indian capital and management in spite of a foreign competition and indifference of the Government of India. There are about 460 mills in all including both spinning and composite. The total amount of capital invested is about Rs. 115 crores and the annual turnover is between Rs. 350 to Rs. 400 crores. In this industry, the number of spindles and looms has increased to about 11,425,000 and 204,012 respectively. In 1956, the total output of the industry was 5307 million yards of cloth and 1630 million pounds of yarn. More than seven and a half lakh workers are employed in this industry. This industry produces about 14 p.c. of the estimated world production of cloth and 13 p.c. of the production of yarn. The annual wages and salaries of the industry amount to about Rs. 80 crores. We are now able to meet our entire demand for cotton cloth from home production and are able to export quite a lot. Our exports of cotton goods was Rs. 62.30 crores in 1956 (about 16.5 p.c. of the total production in that year). The total output of cotton cloth including that of handloom cloth, is a little more than 15 yards per person.

The industry is generally spread all over the country with some amount of concentration in the Bombay State. About 60 per cent of the spindles and looms are located in Bombay and rest are spread out in the states of Madras, Madhya Bharat, Uttar Pradesh and West Bengal etc. There are about 70 mills in Ahmedabad, 65 mills in Bombay city and 50 mills in the rest of the Bombay state. In the Madras state, there are about 80



mills, 22 mills in Uttar Pradesh and 20 mills in Bengal. The cotton mills are of different sizes, from the biggest (of 100,000 spindles) to the smallest (of 10000 spindles).

*Main problems of the industry.*—Since partition, the industry has been facing the shortage of raw materials because the large cotton-growing areas became a part of Pakistan. Therefore, it has led to a greater effort on our part to increase the production of cotton. As a result of the first Five-Year Plan, its production has increased from 2.97 million bales to 4.23 million bales and now we have to import very little from outside.

Some of the mills are so small that they do not form economic units and our labour is also less productive. It naturally leads to higher cost of production.

Most of our mills are working with old and outmoded machinery. In Bombay mills alone, one require about Rs. 100 crores for modernization of plant and equipment because about 90 per cent of these machines are more than 25 years old. With such old type of equipment, we are able to produce inferior quality of goods and at a higher cost of production.

The industry lacks research. There is always a great need for research for improving our technique and reducing the cost of production because there is a very keen competition in this industry.

*Jute Industry.*—The first jute mill was started at Rishra near Serampur (West Bengal) by a Scotch gentleman called Mr. George Ackland. Within a few years, the industry made a quick progress. The number of looms increased from 6100 in 1885 to 15335 in 1910 and to 58639 in 1930. It received a further stimulus as a result of the Second World War also.

*Special features of this industry.*—

1. Unlike the cotton industry, this industry is highly centralised. In Calcutta and its suburbs, there are 101 registered jute mills out of a total of 112.

2. This industry was started and developed mainly by European enterprise and capital. In this respect also, it differs from the textile industry.

3. As U.S.A. imports a large amount of jute goods, therefore maximum amount of dollars are earned by India through this industry.

4. In spite of outside competition, this industry has a fairly strong position in international trade.

5. Generally, the jute mills are bigger in size than the cotton mills on the whole.

6. This industry has an efficient organisation.

This industry occupies an important place in the economy of the country. The fixed capital of this industry is considered of the value of Rs. 29 crores. About 3 lakh workers are employed in this industry. It is mainly an export industry and is the biggest foreign exchange earner for the country. More than 50 per cent of the dollar earnings of India are from hessian which is one of the jute products. The total output of this industry was about 10·93 lakh tons in 1956 and out of this the exports were 7·48 lakh tons which is about 86 p.c. of the total output. The interests of this industry are looked after by the Indian Jute Mills Association.

One of the problems of the industry was that it produced more than its demand. Therefore, the Indian Jute Mills Association has been very often restricting hours of work and keeping a part of equipment idle. This is being done in order to keep the production within limits so that the price of its manufactures may not fall below a certain level. But this policy was not much of a success because it led to the growth and expansion of jute industry in some European and South American countries.

Another problems of the industry is the competition from cloth and paper bags. Particularly the U.S.A. has reduced its imports of jute bags. It is definitely a great blow to the industry.

After partition, there arose the problem of paucity of raw materials because only about 25 p.c. of the total jute growing area remained in the Indian side and only about 25 p.c. of the jute grown in this area, was of good quality. Since then, the government has been encouraging the cultivation of raw jute. It led to an increase in the area under the cultivation of raw jute from 652 thousand acres in 1947-48 to 1951 thousand acres in 1951-52. The production of raw jute also increased from 1658 thousand bales to 4678 thousand bales during the same period.

The most serious problem before this industry is the competition from several countries such as Pakistan, South Africa,



Brazil, Japan and the Philippines which are building up a jute mill industry with modern equipment. Indian jute goods are finding it very difficult to compete with them in the foreign markets. The Indian jute mills must have modern equipments in order to compete with them successfully. A number of mills have already equipped themselves with modern plants. The Jute Enquiry Commission's report was that it would cost about Rs. 40 crores to modernise the rest of the mills. The Commission also recommended for an intensive cultivation of jute and establishment of regulated markets at important centres in the jute growing areas. Another recommendation of the Commission was for the organisation of multi-purpose co-operatives for improving the lot of the jute-growers with the help of the state governments.

*Sugar Industry* — Though the first sugar mills were started in India in 1903, yet this industry did not make much progress till it was granted protection by the government on the recommendation of the Tariff Board about the year 1931. Since then, there has been a rapid development of this industry. In 1931-32, there were only 32 sugar factories. This number increased to 137 in 1935-36 and the production increased from 158 thousand tons to nearly one million tons. In the short period of five years, India came to occupy the first position in the production of sugar.

This industry has made India self-sufficient in respect of sugar. It has improved the rural economy of Bihar and U.P. which produce more than 75 p.c. of the total production of sugar. It is now the second largest industry of the country and occupies an important place in the economy of India. Its total investments are estimated at Rs. 72 crores. It provides employment to about 1·40 lakh workers and 3500 university men and supports 20 million cane growers. There are about 160 sugar factories. In U.P. alone there are 72, in Bihar 30, in Madras 16 and in Bombay 15. This industry provides valuable bye-products which serve as raw materials for some other industries such as power alcohol, paper and paper board and straw board etc.

*Problems of this industry.*—The cost of production of sugar is high. It is owing to several causes. The average yield of sugarcane which had improved to 15·6 tons per acre in 1936-37, has again gone down. Also, the recovery of juice from cane



which improved to 10·28 p.c. in 1942-43, dropped to 9·78 p.c. in 1951-52. It compares unfavourably with the recovery percentage of 12·33 p.c. in Cuba and 14·22 p.c. in Queensland. The bye-products are also not being utilized properly. The cost of sugarcane is so high that it forms about 62 p.c. of the total cost of sugar.

Unless the cost of raw material, *i.e.*, sugarcane is reduced, the cost of production of sugar cannot be reduced. The cost of sugarcane can be reduced by increasing its average yield, cultivating improved varieties of cane and having quick transport arrangements for cane. The duration of crushing season in India is about 4 to 5 months as compared to 8 to 10 months in Cuba and Java. It should be increased as far as possible. If all these problems are faced successfully, the cost of production of sugar can be brought down.

The bye-products of the industry also need to be utilized fully. Its two bye-products are bagasse and molasses. Bagasse can be used in the manufacture of packing paper, paper board, cellulose and artificial silk etc. From molasses, we can manufacture power alcohol, fertilizers, potash, edible sugar syrups. The production of molasses is 4 lakh tons per year. From this, we can get 25 million gallons of power alcohol which is used in place of petrol.

The main problem before this industry is that the supply of sugarcane is inadequate. Both its quality and quantity should be improved. Also, the industry is being taxed heavily and it is clamouring for the reduction of this burden. This industry has a bright future because the consumption of sugar is sure to increase with a rise in our national income. Its production increased from 11·16 lakh tons in 1950-51 to 18·5 lakh tons in 1956. During the period of the Second Five Year Plan, *i.e.*, by the year 1960-61, a target of 22·5 lakh tons is expected to be achieved. In 1957, the production figure touched the figure 20·5 lakh tons. Thus, there is a satisfactory progress in the production of sugar. We now need to develop an export trade in sugar in order to dispose of our surplus stocks and also get some foreign exchange so badly needed for the Second Five-Year Plan.

### **Iron and Steel Industry.**

Some moderate attempts were made in the 19th century to



develop this industry. But the industry came to be established firmly only after the opening of Indian Iron and Steel Company in 1907 by Mr. Jamshedji N. Tata at Tatanagar in Bihar. Next year, the Indian Iron and Steel Company was formed. The World War of 1914-18 gave some stimulus to this industry. In 1923, the Mysore Iron and Steel Works was established at Bhadrawati. But after the War, the industry had to face some difficulty owing to the post-war depression and the competition from Japan. Therefore, the industry was granted protection in the year 1924.

Fortunately, iron and coal mines are close to each other in our country. The rich iron belt of Singbhum area contain 55 to 70 p.c. iron. There are ample supplies of coal and other raw materials such as limestone, dolomite etc. nearby.

The per capita consumption of steel in our country is only 8 lbs. a year as against 800 lbs. in the U.S.A., and 520 lbs. in the U.K. But our production of steel is not sufficient even to meet this small demand because only 1.3 million tons of steel and about 2 lakh tons of foundry pig iron is produced in India. We are very much backward in the production of steel as compared to U.S.A. and U.K. It has been estimated that about Rs. 61 crores have been invested in this industry. This industry provides employment to 6 lakhs workers. As a result of the First Five-Year Plan, the production of pig iron increased to 18.95 lakh tons in 1955 and that of steel, it was about 17 lakh ton in 1956. In spite of this increase in our production of steel, we have to import steel from the foreign countries. The progress of the steel industry has led to the growth of some subsidiary industries such as tin-plate, wire and wire-nails industry, Tatanagar Foundry, Agrico factory and the locomotive manufacturing industry.

There is enough scope for the expansion of this industry because we have good supply of raw materials. But the main problem is that of financial resources in which we lack. The three main steel works of the country need to be expanded, modernised and renovated. A development programme has been prepared for that purpose. It will involve an expenditure of Rs. 72 crores. As a result of this, the production of steel will increase to 1.65 million tons and that of pig iron to 7.5 lakh tons by 1957-58. For this expenditure of Rs. 72 crores, the

producers will provide Rs. 30 crores, the Government will lend Rs. 22 crores and then the problem is to secure the remaining Rs. 20 crores from some sources. But even this expansion and development programme will not be able to meet the demand for steel in our country. In order to fill up this gap between the production and consumption, a great importance has been given to the development of iron and steel production in the Second Five-Year Plan. The Government is establishing three steel plants each of which is to be of one million tons ingot capacity. The first one to be started was at Rourkela in Orissa in 1953. It is being established with German assistance and is expected to produce 720,000 tons of flat products of steel. The second plant is being erected at Bhilai in Madhya Pradesh with Russian help and is expected to manufacture 750,000 tons of saleable steel including 140,000 tons of billets for the re-rolling industry. The third plant is being set up at Durgapur in West Bengal with the British technical assistance and is expected to produce 750,000 tons of high and medium sections of steel and billet. The Mysore Iron and Steel Works is also expected to increase its production of steel to 100,000 tons. As a result of these development and expansion programmes, our production of steel will be sufficient to meet our demands. There appears to be a bright future for the steel industry in our country.

Of course, there is another problem facing this industry from long term point of view. It is the inadequate reserves of metallurgical coal. But this problem can be solved in two ways, firstly by adopting a policy of conservation of metallurgical coal and secondly by adopting the Krupp-Renu process (*i.e.*, using the low grade coal in the manufacture of pig iron).

### **Tea Industry.**

The Government started the cultivation of tea in 1833 by establishing an experimental tea garden in Assam. Its first consignment was sent to England in 1838. Next year, the Assam Company was entrusted with the government tea gardens. It was in this industry that the British capital established its hold for the first time in India. Gradually, the British companies came to possess 60 p.c. of the total acreage under tea. About 80 p.c. of the whole tea industry is controlled and operated by 10 managing agency firms of Calcutta. The marketing of tea in Calcutta is controlled by 4 leading European firms. Britain



is the biggest buyer of tea and the sale of tea in that country is controlled by a small number of firms in the Mincing Lane.

Assam produces the biggest amount of tea and has 53 p.c. of the total acreage under tea in India. This industry provides employment to more than half a million workers in Assam. Majority of the tea plantations there are owned by Europeans and Indians own only 15 p.c. of the total acreage. Next to Assam is West Bengal with 24 p.c. of the total acreage under tea and 2 lakh workers. South India has 19 p.c. of the total acreage followed by the Punjab, U.P. and Bihar. The tea estates spread over a wide area and are managed by joint-stock companies. The tea gardens owned by the Europeans have an average size of 800 acres and those owned by the Indians are of only 100 acres. About 75 p.c. of the production of tea in Northern India is controlled by thirteen leading agency houses.

Upto 1951, the industry developed very well. In 1952, it was faced with a crisis owing to the decontrol policy of the British government. At that time the Indian government came to the rescue of this industry. In 1955, there was again a decline in tea prices and a drop in its exports. In 1956, the government committed the mistake of increasing the export duty on tea. As a consequence, some tea-producers of North India decided to impose a voluntary restriction on the production of tea. This saved the industry from a slump and exports of tea touched a very high figure of 516 million lbs. out of the total output of 663.7 million lbs. These exports were of the value of Rs. 140 6 crores. Tea industry is thus the biggest foreign exchange earner. But the future of the tea industry does not appear to be so bright as there is likely to grow a keen competition in the international market. But we cannot afford to let this industry decline. We should try to expand our home market as much as possible. In the foreign markets, Ceylon is our main rival. But we have the advantage over her of our growing home market. We must also try to develop new markets in U.S.A., Canada, West Germany, Eire, Australia, New Zealand and the Middle East. The Central Tea Board must carry on a vigorous propaganda for the development of this industry.

Tea industry has been notorious for its bad treatment of labourers. Even the method of recruitment of labourers was not free from abuses and the government had to make a num-



ber of laws from time to time for the regulation of labour conditions in this country.

We consume only about  $\frac{1}{3}$  of the total production of tea in our country. Only about  $\frac{1}{3}$  of a lb of tea is consumed per head in our country against 9.4 lbs. in Great Britain, 7.7 lbs. in Eire and 7.0 lbs. in Australia. Great Britain is the biggest customer of our tea. Our government is trying to popularise the consumption of tea in U.S.A. The Central Tea Board is trying to encourage its consumption in India also.

### **Paper Industry.**

The machine-made paper dates from 1867 when the first paper mill was started at Bally in Hoogly. After that, a number of mills were started all over the country, viz., Titaghur Paper Mills in 1832, The Upper India Couper Mill at Lucknow in 1879, The Deccan Paper Mill Company at Poona in 1889, the Bengal Paper Mill Company at Raniganj in 1889, the Punjab Paper Mills Company near Saharanpur, the Mysore Paper Mills at Bhadravati in 1939 and Sirpur Paper Mills in the old Hyderabad State in 1942. The industry was granted protection in 1925. The Second World War gave great stimulus to this industry and the protection was withdrawn in 1947. The industry had made ample progress and there were 20 paper mills in 1955, employing about 27500 workers. The total investment in this industry stood at Rs. 24 crores in 1952. As a result of the progress made during the First Five-Year Plan period, the production of paper has increased to 1.92 lakh tons. The industry is mostly located in West Bengal. Next position is occupied by Orissa.

The paper industry faces the problem of shortage of raw materials. Its important raw materials are bamboo and Sabai grass. Before partition, supply of bamboos used to come from the East Bengal. Steps have been taken to increase the production of bamboo and Sabai grass in U.P. and the Punjab. The Planning commission has made the following recommendations to increase the supplies of raw materials for this industry :—(i) reservation of specific forest areas for the industry and the grant of long-term leases of these areas to the paper mills; (ii) price fixation on an all-India basis to enable the industry to obtain regular supplies of bamboo and sabai grass; (iii) construction of roads in forest areas to facilitate transport and (iv) regulation or even prohibition of exports of



cloth cuttings, hosiery cuttings, hessian and jute cuttings and paper waste etc.

The country is almost self-sufficient in some varieties of paper viz writing and printing paper, kraft paper and paper-board. For newsprint, we are still depending on imports, though the first newsprint mill went into production in 1955. Our present demand is 70,000 tons a year while the installed capacity of that mill is 30,000 tons. In 1956-57, it could produce only 13,534 tons. During the Second Five-Year Plan, it is proposed to invest about Rs. 66 crores in this industry. Its production is expected to rise to 6 lakh tons and the employment will increase by 6500.

*Chemicals Industry.*—The chemicals industry existed earlier also but its proper beginning was made during the Second World War. Since independence, this industry has made steady progress. The production of sulphuric acid has increased from 60,000 tons to 1,46,400 tons, of caustic soda from 2,900 tons to more than 30,000 tons and soda ash from 12,000 tons to more than 60,000 tons. We are now importing much less of heavy chemicals. The Government Fertilizer Factory at Sindri (Bihar), is the biggest of its kind in Asia. It started production in 1951 and is now producing  $3\frac{1}{2}$  lakh tons of ammonium sulphate. But our need for fertilizers is much greater. Therefore, three more such factories are proposed to be established at Nangal in Punjab, in South Arcot and at Rourkela. The production of other chemicals is increasing gradually. The principal centres of production are the big industrial cities of Bombay, Calcutta, Madras, Bangalore, Delhi etc. There are about 250 factories with a capital investment of about Rs. 33 crores.

This is one of the basic industries of modern times and its development is very essential for the industrialisation of the country as well as for national defence. Some important industries such as textiles, metals, paper, paints, varnish, drugs, leather, glass and rubber etc. can not develop without chemicals. Therefore, a fairly big provision of Rs. 132 crores has been made in the Second Five-Year Plan for the development of chemical industries. The production capacity of sulphuric acid will increase to 500,000 tons, of soda ash to 230,000 tons and of caustic soda to 150,400 tons. There are good prospects of this industry in our country because its raw materials such as

lime-stone, gypsum, salts, saltpetre etc. are available here in large quantities.

*Cement Industry.*—The cement industry made its beginning with the manufacture of Portland cement in Madras in 1904. In 1912-1913, three companies were formed and the production of cement in 1914 was 945 tons. The First World War gave a great stimulus to this industry and the production rose to 236,746 tons in 1924. By 1937, the production figure shot up to about one million tons. The Associated Cement Companies Limited which had been created by a merger of 10 important cement concerns in 1936, began to dominate this industry along with the Dalmia group of 4 factories, and accounted for 80 p.c. of the production. There are 6 other factories such as the Mysore Government factory, the U.P. Government factory, near Mirzapur and the Bombay Government factory at Bagalkot. The most important centres of cement production are Dalmia-nagar (Bihar), Katni (M.P.), Lakheri (Rajasthan) and Surajpur (Punjab). In 1955-56 the production of cement had increased to 4.6 million tons and in 1956-57 to 4.9 million tons. It is expected to attain its target of 12 million tons by 1960-61 as laid down in the Second Five-Year Plan.

This industry has a very bright future owing to the availability of good raw materials and other natural advantages. Lime-stone of excellent quality, good quality clay and gypsum are all available in large quantities in our country. There is also the abundant supply of labour in India. The only difficulty which is experienced by some cement factories, is that they are situated at long distances from coal fields. The cost of transport raises the cost of production.

There is great need for increased production of cement as per capita consumption of cement is very low in our country as compared to some of the advanced countries of the world—India 27 lb.; U.S.A. 516 lb.; U.K. 411 lb.; Sweden 740 lb.; Belgium 716 lb.; Denmark 460 lb.; Japan 90 lb. These figures indicate that we are very backward industrially and have to go a long way on the road of progress.

*Glass Industry.*—It was about 1890, that a beginning was made in this industry. Since then, it has faced several ups and downs. The government did not extend protection to this industry and only the two world wars helped little in its growth.



At present, there are 109 glass factories employing about 126,000 workers. The total investment in this industry is about Rs. 6 crores and its production is worth about Rs. 10 crores. So far it is able to meet about half of the country's requirements for glass goods. Most of the glass factories are in West Bengal, Bombay and U.P.

The Government had appointed a panel in 1945 to recommend steps for the development of this industry. The panel had emphasised the great importance of this industry. The future of this industry appears to be quite hopeful. We have a big home market for its goods. Now, there is also soda ash available in our country. The quality of the Indian glass goods needs to be improved. The two Glass Technological Institutes at Benares and Calcutta are expected to do something in this direction. During the period of the Second Five-Year Plan this industry is expected to make a fair amount of progress.

*Machine Tool Industry.*—Before 1939, there was no machine tool industry in our country. During the course of the World War II, this industry made its beginning. In 1949, there was a great decline in its sales because of prejudice against indigenous manufacture and freer import of foreign goods. The industry made a recovery in 1951-52 owing to the Korean War. Later on, the Government started the Hindustan Machine Tool Factory near Bangalore. It is expected to attain its target of 600 machines a year.

### **Tanning and Leather Industry.**

Owing to our largest cattle population in the world, we have a very large supply of hides and skins. We are self-sufficient in leather and leather goods. Our estimated annual production is about 16·2 million cow hides, 5·5 million buffalo hides and 15·1 million sheep skins. The military authorities first introduced the modern methods of tanning to produce superior leather for military requirements. In 1860, the Government Harness and Saddle Factory was established at Kanpur which is the main centre of modern tannery in India. The World War I and II gave a great stimulus to this industry.

The old method of tanning and manufacturing is being followed in this industry to a large extent. Modern method has been adopted in machine equipped tanneries mostly situated at Bombay, Calcutta, Kanpur and Madras. Various types

of leather goods such as shoes army boots, saddlery, leather belting and roller skins are being manufactured at the above-mentioned centres. About 2 lakh workers are employed at these centres. Largest number of army boots and shoes are being produced in U.P. Madras has the largest number of tanneries. For a development of this industry on modern lines, the Central Leather Research Institute was set up in Madras in 1953. As we have large home market, there is a great scope for future development of this industry.

*Plastics Industry.*—This industry is still in its infancy. There are about 100 factories in our country producing moulded products with a capital estimated at Rs. 7.5 crores. Their annual production is worth Rs. 5 crores. The number of workers employed in this industry is about 15,000. There are three main branches of this industry viz. compression moulding, injection moulding and fabrication by the extrusion process. A number of consumer and other types of goods are being manufactured. Some of these goods are also being exported to the Middle East countries. In 1954-55, goods worth Rs. 14.41 lakhs were exported. We have yet to go a long way because the per capita consumption of plastics in our country is only 0.03lb against 17lb in U. S. A., 14.5lb in Germany and 8lb in U.K.

*Vanaspati.*—It is one of the best organised and efficient industries of India. The capital investment in this industry is estimated at Rs. 25 crores. The number of workers directly employed in this industry is about 15000, and a much bigger number is employed indirectly. One of the most modern and well-organised factories is the Tungahbadra Industries Ltd. at Kurnool. There are about 50 vanaspati factories in the country. In 1954, its production touched the high figure of 230,600 tons and in 1955 it was still higher.

*Rayon Industry.*—This industry developed after the Second World War. There are four factories in the country. The capital invested in the industry is about Rs. 13 crores and more than 2 lakh workers are employed in this industry. Its total production is about 36 million lb. whereas the present demand is more than this. By the end of the Second Five-Year Plan, the industry will be able to meet the whole of the internal demand.

We have described above some of the important industries.



There are some others worth mentioning such as film industry, woollen and silk textiles, soap, paints, varnishes, rubber goods, cigarettes, diesel engines, power-driven pumps, plywood, drugs and pharmaceuticals, fertilizers, oil-refining, ship-building and locomotive manufacture etc. Most of these industries were started during the period of World War II and have made a quick progress after the attainment of independence. The national government is paying greater attention to the development of basic and producer's goods industries and not consumers goods industries. The key industries such as locomotive and automobile manufactures were the first to be started by our government. The government has started some industries as national or public enterprises such as Sindri Fertilizer Factory, the Chitranjan Locomotive Factory and the steel works at Rourkela, Bhilai and Durgapur.

### **Hinderances in the way of Industrial Development.**

(1) There is paucity of capital in our country. This dearth is owing to the general poverty in the country as well as lack of enterprise and initiative among those who possess it. Hence, some of our industries such as jute, tea and woollen textiles are under the domination of foreigners because of their investments.

(2) We do not have so far a sufficient number of skilled and trained personnel. It is for this reason that we have been taking help from foreign engineers and technicians in the establishment of the new industries.

(3) Transport facilities have been inadequate in some parts of the country. The railway charges for the transport of goods have been rather excessive and discouraging.

(4) People are generally conservative and backward owing to illiteracy and social customs. Some of them are not prepared to take to new things and accept the changed and better way of life. Such an attitude is a great hinderance in the way of economic development.

(5) In most of our industries, old and worn-out machines are being used. With the result, productivity is low in those industries and they are not able to compete with the foreign industries.

(6) The biggest hinderance had been the foreign rule which



checked the rapid industrialization of the country. The British Government's policy of free trade checked the growth of our industries. Even after 1924 when they had adopted a policy of protection, they applied it in very few cases. The industrialists and entrepreneurs could never be sure of getting any help from the government.

Since the attainment of independence, the policy of the national government has altogether changed and they have embarked upon a policy of planned development of industries. But they have imposed heavy taxes which are in a way hindering the growth of industries in the private sector. Moreover, their attitude towards the labour is different. Their effort is to increase the labourers wages and improve their conditions of work. This policy "is resulting in high labour cost, low output and considerable indiscipline among the workers." But the national government can not see the labourers being exploited. They have to see to the introduction of humane conditions of work for labourers.

### Questions and Projects.

1. Discribe the main features of the industrial progress in India.
2. Prepare a pamphlet on the cotton textile industry in India. Give the circumstances owing to which it started and describe its history of growth, the main features of this industry and the problems facing it
3. Describe the present position of Jute Industry in India. What are the future prospects of this industry ?
4. Give a short account of the Iron and Steel Industry in India. What steps have the Government taken to develop this industry ? How much progress is contemplated in this industry by the end of the Second Five-Year Plan ?
5. What factors led to the growth of Sugar Industry ? Describe the present position of this industry. What improvement can be introduced in this industry ?
6. How does Tea Industry occupy an important place in the Indian economy ?
7. What heavy chemicals' industries are being developed in India ? How will they help in greater industrial development of the country ?



8. Give a short account of the following industries :—

- (a) Cement Industry                      (b) Paper Industry.
- (c) Glass Industry                      (d) Machine Tool Industry
- (e) Tanning and Leather Industry and
- (f) Plastics Industry.

9. Prepare a project (pamphlet) about the important industries of your state giving the factors which led to their development, their present position and the problems facing them. Make a special mention of the biggest industry of your state.

10. Describe the factors that have hindered the growth of large-scale industries in India.

11. Describe the main features of the industrial progress made after the attainment of independence.

12. In what way, the policy of our government is also hindering the growth of industries in India ?

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## CHAPTER VII.

### Internal Trade And Foreign Trade.

#### Internal Trade.

It can be classified into two groups viz (i) Inland Trade and (ii) Coastal Trade.

(i) *Inland Trade*.—It is much larger in volume than our foreign trade. It must really be huge in quantity because of large dimensions, big population and rich natural resources of the country. As no reliable statistics are available regarding the value, volume and composition of this trade, we can not form an exact estimate about it. It is estimated to be 14 times the value of her foreign trade.

Industry and agriculture are mostly localised in India. For example, wheat is produced mostly in U.P. and Punjab, Sugar-cane in U.P. and Bihar, cotton in Bombay and M.P., and oilseeds in M.P. and Madras. In the same way, cotton textile industry is concentrated mostly in Bombay and Ahemedabad, jute in Bengal and sugar in U.P. and Bihar. The products of these industries have to be transported to the consuming centres all over the country. Also, the products of the numerous cottage industries localised in the different parts of the country, are mostly distributed all over the country. The major part of our population lives in villages and the manufactured goods have to be supplied to all of them. Raw materials are mostly obtained from there for our big factories. All this results in a huge internal trade between our villages and the manufacturing centres.

There are some other reasons for the growth of the internal trade. There has taken place the development of the means of transport such as railways and roads and greater industrialisation of the country during the last 50 years. Also the growth of banks and means of communications have further contributed to its progress.

It was mentioned in the report of the trade sub-committee of The National Planning Committee in 1940 that, "it would



be safe to assume that our internal trade is not less than Rs. 7000 crores. This figure may be contrasted with the size of our external trade which is about 500 crores". Since then, there have been great developments in industries and agriculture, improvements in banking and marketing facilities and larger movements of goods by the various means of transport. Huge amounts of money are being spent on the development of the various aspects of our national life. Along with all this, the prices have gone up by about 4 times. The money supply has also been increased during the last 18 years and now there is greater purchasing power in the hands of the people. All this has resulted in a vast increase of internal and external trade which is evident from the larger movement of goods through railways, motors, bullock-carts, boats and animals. The Second Five-Year Plan is laying greater emphasis on the development of industries and minerals. It will lead to a further growth in the value and volume of internal trade of the country.

### **Coastal Trade.**

India's coastal trade is small, though we have a long coast line of about 3,535 miles. The main difficulty in the growth of our internal trade is the deficiency of good and natural harbours and the meagre development of our shipping. Bombay is the only natural port of India. Madras and Calcutta are other two good harbours. The ports of Kandla and Okha on the western coast and the Vishakapatnam on the eastern coast are being developed.

The total value of the coastal trade was Rs. 70 crores in 1939. It had much increased during the Second World War owing to congestion on railways and in 1956-57, its value was Rs. 343 crores.

Before independence, most of the coastal trade was in the hands of the British shipping companies. Now, it is completely in the Indian hands. Its volume is further increasing owing to improvements in harbours and growth of Indian shipping tonnage. As a result of the industrial and mineral development, there is now greater traffic. Part of this traffic is being carried by the coastal shipping because the railways can not manage the whole of this.

*Foreign Trade of India.*—In ancient and medieval times,

India had trade relations with many countries. Our goods were in great demand both in the countries of the West and the East. Very often our exports were more than our imports and they had to be paid for in precious metals by the foreigners. As a result of the establishment of British rule in India, occurrence of industrial revolution and the opening of the Suez Canal in the 19th century the demand for our manufactured goods of fine quality and workmanship declined. The Indian cottage industries began to decline because our markets were flooded with cheap machine made goods. Thus the character of our foreign trade underwent a complete change as our exports mainly consisted of raw materials such as raw jute and raw cotton etc. India was gradually converted into some sort of a farm house for the mills of Lancashire and Manchester.

*Foreign Trade upto 1939.*—During this period, there were some distinctive features of our foreign trade, though its value and volume differed in the different decades.

Firstly, our exports mostly consisted of primary commodities and imports were manufactured consumer goods. For example in 1938-39, as much as 68 p.c. of our total exports consisted of raw materials, food, drink and tobacco and 62 p.c. of our imports were manufactured goods. The percentage of manufactured goods in imports was gradually going down as a result of the policy of discriminating protection. In 1920-21, the proportion of manufactured goods in our imports was 84 p.c. and it declined to 62 p.c. in 1938-39.

Secondly, we used to import a large variety of goods and exported only a few commodities like raw jute, raw cotton, tea and oil-seeds etc.

Thirdly, the biggest customer of our goods and also the supplier of imports was U.K. In 1938-39, U.K. accounted for 34·3 p.c. of our exports and 39·5 p.c. of our imports in our foreign trade—of course, U.K.'s share had declined over a number of years because it had been as much as 62·8 p.c. of our imports in 1909-14 and had come down to 39·5 p.c. in 1938-39.

Fourthly, our country had a favourable balance of trade nearly throughout this period. We had an unfavourable balance of trade only in the years 1920-22 and for some years during the trade depression. In fact, our peculiar circumstan-



ces compelled us to have a favourable trade because we had borrowed from U.K. and were required to pay interest and part of the loan every year. Besides, our country was required to send large amounts of money as "Home Charges" to Great Britain, our ruling country. In order to make all these heavy payments, we had to export more than import.

Fifthly, we had to make use of foreign shipping, banking and insurance services to a large extent and paid for them through our exports.

Sixthly, there was almost a constant demand for our goods (mostly raw materials) in foreign countries.

*Trade during the Second World War.*—During this period, trade was strictly controlled by the government as in all other countries. Owing to the war, India lost the markets of the enemy countries and of those under the Axis control. But this country was an important supply base for the Allies. Also, the demand for her manufactures was rising to satisfy the war needs of the Allied Powers as well as those of the Middle East and Near East countries, as they could no longer get their supplies from the Western countries engaged in war. New items of export were manufactured goods such as cotton piece goods and sugar. Also, the prices of all commodities had risen high during this period. So, owing to all these reasons, India's foreign trade had declined very little in quantity and had actually increased in value as is evident from the figures given below :—

#### India's Balance of Trade (in crores of Rs.)

| Year    | Balance of Trade | Year    | Balance of Trade. |
|---------|------------------|---------|-------------------|
| 1938-39 | + 14.5           | 1942-43 | + 79.3            |
| 1939-40 | + 44.3           | 1943-44 | + 76.0            |
| 1941-42 | + 74.8           | 1944-45 | — 12.2            |

There was also some change in the composition of our foreign trade. We began to export more of manufactured goods and less of raw materials because we began to utilize more of our raw materials in our own industries. The articles whose exports increased, were cotton manufactures and yarn, wollen goods, chemicals, drugs and medicines, tanned hides and skins and leather goods. The change in the composition of the trade is evident from the table given below :—

|                          | <i>Imports</i> |         | <i>Exports</i> |         |
|--------------------------|----------------|---------|----------------|---------|
|                          | 1938-39        | 1946-47 | 1938-39        | 1946-47 |
| Food, drink and Tobacco. | 16 p.c.        | 13 p.c. | 24 p.c.        | 20 p.c. |
| Raw materials.           | 22 p.c.        | 45 p.c. | 86 p.c.        | 31 p.c. |
| Manufactured goods.      | 61 p.c.        | 58 p.c. | 29 p.c.        | 48 p.c. |

There was also some change in the direction of the trade during this period. Our trade increased with the African and Middle East countries and U.S.A. In our trade with U.S.A. exports were more than the imports and it enabled us to earn precious dollars.

*Affects of Partition and other events on our foreign trade.*— Since the attainment of independence, our foreign trade has been influenced by a number of factors such as Partition of the country, the devaluation of the rupee, the Korean War and the rush for stock-piling. The combined affect of these factors has changed the character of our foreign trade.

The partition of India affected the foreign trade in several ways. We began to import more of food grains because the canal areas of Punjab and Sind known for the production of wheat fell into the Pakistan area. In the same way, more of raw materials particularly raw cotton and jute were begun to be imported as the areas of Sind and East Bengal rich in the production of cotton and jute respectively, were on the Pakistan side. All these large imports of food grains and raw materials had to be paid for in the form of manufactured goods.

The devaluation of the rupee which was done in September, 1949 affected our foreign trade in two ways. Firstly, it stimulated our exports to a fairly good extent. Secondly, it resulted in a dispute with Pakistan which refused to devalue her currency. Hence, all trade between India and Pakistan came to a stand still.

The Korean War which broke out in June, 1950, gave a further stimulus to our foreign trade. Some countries were actively stock piling strategic and industrial raw materials. This raised the demand and the prices of these goods. Consequently, the value of our exports rose from Rs. 524 crores in 1950 to Rs. 742 crores in 1951 and that of imports from



Rs. 508 crores to Rs. 774 crores during the same period.

As a result of these causes, there was some change in the character of our foreign trade as is obvious from the following tables—

*Principal articles of import (in crores of Rs.)*

|         | Food   | Per cent | Raw materials | Per cent | Manufac- tures | Per cent |
|---------|--------|----------|---------------|----------|----------------|----------|
| 1938—39 | 24·00  | 15·9     | 33·18         | 21·8     | 92·75          | 60·9     |
| 1948—49 | 91·98  | 17·8     | 126·93        | 24·5     | 294·52         | 56·9     |
| 1949—50 | 122·36 | 22·2     | 137·88        | 25·2     | 288·58         | 52·5     |
| 1950—51 | 104·14 | 19·0     | 196·48        | 35·0     | 258·03         | 46·0     |
| 1951—52 | 252·58 | 29·8     | 252·13        | 29·0     | 399·62         | 40·0     |

The above table indicates that during this period the imports of raw materials and food grains increased and that of the consumer's goods decreased. Food grains, raw materials and machinery of all kinds formed the major part of our imports. In 1951—52, these three items were of the value of Rs. 458 crores out of the total imports of Rs. 850 crores. Mineral oils, chemicals, metals and vehicles were other important items of import.

As regards the exports during this period, the important position was taken by manufactured goods in place of raw materials. Among the manufactures, the most important place was that of jute and next in order of importance were cotton and woollen manufactures.

*Principal articles of export (in crores of Rs.)*

|         | Food   | Per cent | Raw materials | per cent | Manufac- tures | per cent |
|---------|--------|----------|---------------|----------|----------------|----------|
| 1938—39 | 39·43  | 23·3     | 76·28         | 45·1     | 50·72          | 30·0     |
| 1948—49 | 87·55  | 20·7     | 98·64         | 23·3     | 234·76         | 55·5     |
| 1949—50 | 112·90 | 25·1     | 103·46        | 23·0     | 240·19         | 53·3     |
| 1950—51 | 130·89 | 23·4     | 120·45        | 21·4     | 306·05         | 55·2     |
| 1951—52 | 152·56 | 22·2     | 137·32        | 20·0     | 389·16         | 57·0     |

Another feature of the foreign trade during this period was continued adverse balance of trade on account of the heavy import of food grains and raw materials as is evident from the following figures :—

*India's Balance of Trade (in lakhs of Rs.)*

|         | 1948—49  | 1949—50  | 1950—51 | 1951—52   |
|---------|----------|----------|---------|-----------|
| Exports | 518,00   | 451,51   | 600,57  | 731,65    |
| Imports | 422,82   | 547,47   | 605,28  | 956,23    |
| Balance | (+)95,18 | (—)95,96 | (—)4,71 | (—)224,58 |

Another important feature of our foreign trade during this period was the unfavourable balance of trade with U.S.A. which used to be otherwise during the war years. The Government of India maintained the balance with great difficulty by increasing exports and reducing the imports from U.S.A.

**Foreign trade during the period of the First Five-Year Plan.** During this period, the imports of food-grains came down from Rs. 228 crores in 1951-52 to Rs. 18 crores only in 1955-56 because the food production was increased. Also the imports of raw cotton, raw jute and raw wool etc. was much reduced owing to their increased production in the country. The import of oils was reduced from Rs.60 crores in 1951-52 to Rs. 44 crores in 1955-56 owing to the erection of oil refineries. Imports of capital goods (machinery etc.), electrical goods, iron and steel and other metals increased in this period.

Among the exports, cloth exports came down from 128 crores yards in 1950-51 to 74 crores yards in 1955-56. But the export of tea increased from Rs. 94 crores in 1951-52 to Rs. 109 crores in 1955-56. The export of jute goods decreased from the high figures of 1951-52. There was slight decrease in the export of minerals and some increase in those of raw cotton and vegetable oils.

### **Present day foreign trade and its main Features.**

1. The percentage of manufactured goods has increased from 38 p.c. in 1939-40 to 40 p.c. in 1956 in our exports and that of raw materials has come down from 43 p.c. to 24 p.c. during the same period. In the same way, in our imports also, the percentage of raw materials has increased from 22 p.c. in 1939-40 to 29 p.c. in 1956 and that of manufactured goods has decreased from 56 p.c. to 49 p.c. in the same period. This shows that India is getting industrialised. This is also evident from the fact that the import of machinery has increased from 12 p.c. of our total imports in 1938-39 to 22 p.c. in 1956.

2. As a result of the partition, the export of raw cotton has declined from 12 p.c. in 1938-39 to 4 p.c. of our total ex-



ports in 1956 and its import has increased. Export of raw jute used to be about 7 p.c. of the total exports in 1938-39 but now it has become almost nil.

3. Even now, only a few items are prominent in our exports. They are tea, cotton and jute manufactures and hides and skins which accounted for more than 66 p.c. of our exports.

4. Great Britain still occupies the most important place in our foreign trade. Of course, her share is gradually decreasing now. On the other hand, the importance of U.S.A. has increased both in imports and exports.

5. Another important feature is the adverse balance of trade. It has been like that almost every year since the attainment of independence, as has been told already and we give here more statistics of the later years to show that.

*Balance of trade from 1950-1951 to 1955-56 (in crores of Rs.)*

|                  | 1950-51 | 1951-52 | 1952-53 | 1953-54 | 1954-55 | 1955-56 |
|------------------|---------|---------|---------|---------|---------|---------|
| Total exports    | 601     | 733     | 577     | 530     | 594     | 597     |
| Total imports    | 623     | 943     | 670     | 572     | 656     | 679     |
| Balance of trade | (—)22   | (—)210  | (—)93   | (—)42   | (—)62   | (—)82   |

**Causes of the adverse balance of trade.** First, as a result of the partition, the exports of raw cotton and raw jute have very much declined and the imports of these commodities have increased.

Second, our population has been increasing at a fast rate while the food production declined in some years owing to the natural calamities and the government had to import large quantities of food grains which affected the balance of trade adversely.

Third, we have imported machineries on a large scale during the post-war years for replacements and renewals and for carrying out the planned development of our industries and big projects.

Fourth, owing to the government encouragement, our exports increased in volume. But their prices had declined in the foreign markets by a large percentage and therefore the total value of our exports remained comparatively low.



## **Measures taken by the Government to check the adverse balance of trade.**

1. The Indian Government has been following a policy of strict import control, particularly in relation to the imports from the dollar countries. Imports of non-essential goods have been very much restricted.

2. In order to stimulate our exports particularly to the dollar areas, the government adopted the policy of devaluation of the rupee in terms of gold and dollar in September, 1949.

3. Several measures have been adopted by the government to promote exports. For example, export duties on jute goods, linseed and linseed oil and tobacco etc. have been reduced. There has been created a special organisation for the promotion of exports. This body is known as the Export Promotion Committee. This organisation has been making a comprehensive study of all aspects of export promotion.

4. Positive steps have been taken to increase the production of food grains, raw jute and raw cotton, and now we are importing less of these articles owing to the increased home production.

5. The Government adopted several anti-inflationary measures such as the raising of the Bank rate in 1951 and change in the Reserve Bank's policy regarding the purchase of government securities etc. These measures resulted in a decline in our internal prices.

6. In order to stimulate exports, the Government has established Export Promotion councils for different commodities such as cotton textiles, silk and rayon textiles, plastics, engineering goods, cashewnuts, pepper, tobacco, leather and leather goods, shellac and mica. These councils make a comprehensive study of the foreign market. They send trade delegations abroad and collect and supply information for the advantage of exporters. The Cotton Textiles Promotion Council has opened a net-work of branch offices in various countries of Asia and Africa.

The government are helping our export commodities to compete successfully in the foreign markets. These commodities are subsidised to be sold at lower prices in the foreign markets and they are sold at higher prices in the internal



markets. Sometimes, there may be even a little shortage of these commodities in our home market.

The Government are providing foreign exchange to the exporters for the import of such raw materials which are required for the production of articles meant for export. Even those businessmen who want to travel abroad for pushing up the sale of their products, are allowed the foreign exchange facilities.

The railways are giving the highest priority to the movement of goods meant for export. Shipping space is being provided specially to such goods. Transport and other charges have also been reduced in the case of such goods.

Credit facilities are being provided on easy terms by the Reserve Bank and State Bank of India for export operations. Important industries like tea, jute and coir are sending their representatives to foreign countries for promoting exports of their products.

State Trading Corporation which was established in 1956, is trying to increase India's exports to countries with controlled economies in order to secure from them machinery, steel and industrial goods without spending our sterling reserves. This corporation is meant to promote the trade as a whole and canalise it into proper channels. It is trying to regulate the Indian trade and arrange for the distribution of important commodities like cement. At the same time, the corporation is doing good work to promote exports and has arranged for the export of mineral ores, shoes, handicrafts, salt, tea, coffee and woollen goods.

All these measures described above are proving successful to some extent in checking the adverse balance of trade. However, our imports have to be quite large in order to carry out the planned development of our industries. Therefore, there is an urgent need of a substantial increase in our exports. It can be possible if all concerned, viz. trade, industry, labour, consumers, become export minded and are ready to work hard and make the necessary sacrifice.

### **Composition of Foreign Trade.**

We give here a table showing the important exports and imports of India and figures of each of these items in the year

1957. From this table, we will be able to see at a glance the relative importance of the various items of imports and exports.

Imports and exports of Principal commodities in 1957.

(In crores of rupees)

| Imports                               | Value   | Exports                            | Value  |
|---------------------------------------|---------|------------------------------------|--------|
| 1. Metal and Manufactures ...         | 229·16  | 1. Tea ...                         | 123·40 |
| 2. Machinery other than electric ...  | 171·83  | 2. Jute yarns and Manufactures ... | 113·20 |
| 3. Mineral oil ...                    | 107·51  | 3. Cotton Piece goods              | 65·19  |
| 4. Vehicles ...                       | 75·81   | 4. Hides and skins tanned ...      | 21·75  |
| 5. Electrical Machinery and apparatus | 61·14   | 5. Hides and skins raw ...         | 6·99   |
| 6. Grain, pulses and Flour ...        | 55·39   | 6. Raw Cotton and cotton waste ... | 18·66  |
| 7. Chemicals, Drugs and Medicines     | 51·80   | 7. Sugar ...                       | 12·88  |
| 8. Raw Cotton ...                     | 48·62   | 8. Tobacco ...                     | 12·83  |
| 9. Paper and paper board. ...         | 17·00   | 9. Chashew kernel                  | 14·73  |
| 10. Cutelry, hardware etc. ...        | 14·31   | 10. Iron ore ...                   | 11·76  |
| 11. Art silk yarn ...                 | 12·99   | 11. Mica ...                       | 9·69   |
| 12. Raw jute ...                      | 7·20    | 12. Manganese ores                 | 31·51  |
|                                       |         | 13. Vegetable oils ...             | 11·42  |
|                                       |         | 14. Pecroleum Pro-ducts. ...       | 6·62   |
| Total (including other items) ...     | 1025 82 | Total (including other items)      | 638    |

In the above table, on the imports side capital goods such as metals, machinery, mineral oil, vehicles and chemicals figure prominently because they are urgently needed for the planned



development of the country. Another important item of import is raw cotton in which we have not become self-sufficient so far. Food grains had to be imported in large quantities because of a decline in home production.

On the exports side, tea, jute products and cotton textiles are the most important. Our export trade needs to be developed much more than this in order to strengthen our economy. Next we give a brief description of our main exports and imports.

### **Principal Exports.**

*Tea*—It is the best foreign exchange earner for India. In 1956, its exports amounted to Rs. 142·84 crores (about 19·9 p.c. of total exports). In 1957, its exports declined. Britain is the biggest buyer of this commodity and purchases about 60 p.c. of its total exports. Tea is also exported to U. S. A., Canada, Australia, Iran and U. S. S. R.

*Jute yarn and manufactures*—Its exports amounted to Rs. 113·48 crores in 1956. Hessian, a jute manufacture is a good dollar earner. Before 1947, we held a monopoly of jute and jute products. After partition, about 3/4 of the jute producing area fell into the Pakistan side. Therefore, we have to import raw jute from that country. Some western countries are trying to set up jute mills. Others are trying to find a substitute for this. Therefore, over jute trade is facing all these difficulties. Jute manufacturers of India are trying to compete with western countries by modernising their machinery.

*Cotton yarns and manufactures*—Its exports have grown in importance since the Second World War when India captured the markets previously supplied with Japanese goods. Our cotton manufactures are being exported to several Asian countries and even to U. K. We also export some raw cotton of short-staple variety. Our exports of cotton products were the largest in 1950—51. Since then we are not competing so well owing to some internal factors such as restrictions on the installation of automatic looms, higher excise and other duties, higher labour costs etc. Moreover China and Japan are now our keen rivals in this trade. However, the Second Plan has laid an export target of 100 crore yards of cloth annually. We can increase our exports and compete better if we have more automatic looms, reduce our costs, lower our railway freights and produce the varieties of cloth mostly in demand in foreign countries.

*Mineral Ores.* Manganese ore and iron ore, mica and other minerals are exported from our country. The export of manganese ore had increased to Rs. 32 crores in 1957 and that of iron ore to Rs. 12 crores. Export of iron ore is likely to increase further.

*Hides and Skins.* They are exported both in raw and manufactured form. In 1956, the exports of raw hides and skins amounted to Rs. 6.07 crores and those of the tanned hides and skins amounted to Rs. 22.48 crores.

*Spices.* In 1956, their exports amounted to Rs. 9.23 crores. Pepper is the most important article of export to the countries of Europe and U. S. A. Its export helps India to get some dollars also. The Spices Enquiry Committee recommended for the setting up of a pepper development fund so that the exports of this commodity may increase.

*Tobacco.* Its exports were of the value of Rs. 13.31 crores in 1956. The important buyer of tobacco is Great Britain.

*Other items of export.* Cashew nut kernel (worth Rs. 10.93 crores in 1955-56), lac (Rs. 11.19 crores in 1956), fruits and vegetables (Rs. 15.29 crores in 1955-56), coal (Rs. 6.88 crores), coir manufactures (Rs. 8.16 crores). A new item of export is sugar. Its export was of Rs. 13 crores in 1957. The Government's idea is to export 15 p.c. of the annual output of this commodity. Its cost of production being high, it has to be sold at a loss. That loss has to be made up by raising its internal prices.

### **Principal Imports.**

*Machinery and Vehicles.* There have been large imports of machinery and vehicles during the last few years. In 1956, their total imports were of the value of Rs. 240 crores and in 1957, of the value of Rs. 308 crores. They have been imported for the various industries such as iron and steel and for the public utility services such as railways, road transport and communications etc. Their imports have been large because they are being required for irrigation and power schemes and for expansion, modernisation and replacements in the existing industries.

*Metals and Manufactures.* In this are included iron and steel and non-ferrous metals such as aluminium and copper. In order to carry out the big industrial development programme as



laid down under the Second Five-year Plan, imports of these goods are likely to increase till we are able to produce enough of them for our needs. In the years 1956 and 1957, the value of their imports was Rs. 159 crores and Rs. 229 crores respectively.

*Mineral Oils.* In this group of imports are included petroleum, aviation spirit, kerosene oil and other mineral oils. Now, we are importing more of crude petroleum for our oil refineries.

*Grains, pulses and flour.* As our home production of food grains had increased in 1953-54, therefore their imports declined in 1955 and 1956. On account of a decline in food production in 1956, food grains in large quantities had to be imported in 1957 from U. S. A. Their imports will have to be continued till the home production is substantially increased.

*Raw Materials.* Imports of raw cotton in 1955-56 were of the value of Rs. 57.35 crores. We have to import large quantities of long-staple cotton from Egypt, Sudan, and British East Africa etc. Raw jute of the value of Rs. 19.33 crores was imported in 1955-56.

In 1955-56, other important articles of import were instruments, apparatus, appliances of the value of Rs. 15.64 crores, chemicals, drugs and medicines of the value of Rs. 37.49 crores, artificial silk yarn of the value of Rs. 17.88 crores, paper worth Rs. 16.36 crores.

The imports of consumer goods such as cutlery and hardware have been reduced.

### **Direction of Trade.**

*Britain.* It still occupies the first place in our foreign trade. But her share is gradually declining. In 1953-54, the total trade with this country was of the value of Rs. 292.70 crores which was about 27 p. c. of the total trade of the country. It included imports of the value of Rs. 142.71 crores and exports of Rs. 149.99 crores. Thus, the balance of trade was a little in favour of India. Among the exports, the main items in order of their importance generally are tea, textile manufactures, leather and leather manufactures, tobacco and its manufactures, ores and metal scraps. The imports from that country are mostly machinery, electrical machinery,

chemicals, vehicles and aircraft, manufactures of metals, iron and steel, railway vehicles and petroleum.

*U. S. A.* It occupies the second position in our foreign trade. In 1955, the total value of our trade with this country was Rs. 180·87 crores (about 16 p. c. of the total foreign trade). It included imports of Rs. 89·81 crores and exports of Rs. 91·06 crores. Our main exports to this country are jute manufactures, manganese ores, hides and skins, lac, pepper, cashew kernels etc. and imports are machinery of various types, food-grains, motor vehicles, drugs and chemicals and tobacco etc.

*Australia.* It occupies the third position. The total value of trade with this country was Rs. 43·52 crores in 1955-56. It included imports of Rs. 25·99 crores and exports of Rs. 17·53 crores. The imports consist of raw wool, processing food, plastics, plywood etc. and exports are oil seeds, lac, goat skins, manufactures and cotton piece-goods etc.

*Germany.* Our trade is gradually increasing with this country. It amounted to Rs. 42·70 crores, imports being of the value of Rs. 31·14 crores and exports Rs. 11·56 crores. Thus, the balance of trade is against India.

*Burma.* It occupies the next place in our foreign trade with a total trade of Rs. 38·64 crores in 1953-54.

*Pakistan.* The total amount of trade with this country was Rs. 27·34 crores in 1953-54, imports being Rs. 19·30 crores and exports Rs. 8·04 crores. The imports are mainly raw jute and cotton, hides and skins, rock salt, fruits etc., and the exports are cotton manufactures, coal, mustard oil, jute manufactures and steel goods etc.

We carry on trade with several other countries also. But U. K. and U. S. A. are our principal buyers and suppliers. We can have a clear idea in regard to the direction of our foreign trade from a table given below :—



**Principal Countries trading with India and position of trade with them in 1956.**

(In lakhs of rupees)

| Name of the Country | Exports | Imports | Balance of trade |
|---------------------|---------|---------|------------------|
| 1. United Kingdom   | 18,699  | 20,788  | — 2089           |
| 2. U. S. A.         | 8,980   | 9,421   | — 441            |
| 3. Japan            | 3,071   | 4,327   | — 1256           |
| 4. Australia        | 2,228   | 1,165   | + 1063           |
| 5. Ceylon           | 2,150   | 856     | + 1294           |
| 6. Canada           | 1,572   | 703     | + 869            |
| 7. Germany (West)   | 1,503   | 8,182   | — 6679           |
| 8. U. S. S. R.      | 1,219   | 1,491   | — 272            |
| 9. Netherlands      | 1,197   | 1,416   | — 219            |
| 10. Egypt           | 1,113   | 1,552   | — 439            |
| 11. Burma           | 1,018   | 571     | + 447            |
| 12. Italy           | 828     | 2,612   | — 1784           |
| 13. Pakistan        | 809     | 2,093   | — 1284           |
| 14. Singapore       | 764     | 1,455   | — 691            |
| 15. Kenya Colony    | 580     | 1,932   | — 1352           |
| 16. France          | 577     | 1,954   | — 1377           |
| 17. Saudi Arabia    | 532     | 2,150   | — 1618           |
| 18. China           | 379     | 835     | — 456            |
| 19. Bahrein Islands | 223     | 656     | — 433            |

**India's Policy in regard to Foreign Trade.**

In spite of strict restrictions on imports we have been having an adverse balance of trade for the last several years. Since 1950-51, the Indian Government has been carrying out the economic development of the country through the First and Second Five-Year Plans. The implementation of the two plans is sure to influence the course of our trade in different degrees in different years. These repercussions on the foreign trade can be divided under different stages as follows :—

*First Stage.* There are to be heavy imports of capital goods and of processed raw materials. Exports would decline because of the increasing use of the raw materials and ores in the country. The balance of trade would naturally turn heavily

against India. The deficit will have to be made up by drawing upon our sterling balances or by foreign loans. Along with all this, there would be strict restrictions on the import of consumers' goods. In fact, India is passing through this stage at present.

*Second Stage.* The capital investments made in the first stage start yielding goods and services. Therefore, the imports of capital goods are reduced with the progress of the plans, the national income rises and it leads to greater demand for consumers' goods. But the policy of austerity has to be continued in our consumption in order to relieve strain on the balance of payments.

*Third Stage.* It will see the development of secondary industries after the establishment of the capital goods industries. The demand for imports would fall and the country will be producing lots of new commodities for export. Increased exports would allow more imports of quality or specialised goods. The problems arising in the foreign trade at present would no longer be there and the adverse balance of trade will be corrected.

*The methods to be adopted to reconstruct the foreign trade on the above lines.*

There should be a two-fold attack on the problem viz. (1) Short term policy and (2) Long term policy.

*Short-term policy.* It is meant to achieve a short period equilibrium in the trade balance. Suitable monetary and fiscal measures should be adopted to create conditions of disinflation. Further devaluation or revaluation of the rupee may be done if necessary. India may enter into bilateral trade agreements with different countries and particularly new and young countries (such as in South-East Asia). Other internal measures can be intensive cultivation of land, more irrigation facilities, an intensive drive for family planning.

The short-term policy should be on these lines. It is expected to enable the country to have some breathing time while the fundamental long-term adjustments are brought about in the structure of the foreign trade.

*The Long Term Policy.* According to the fiscal commission (1950-51), it should aim at developing the foreign trade on



such lines that the country may be able (i) to specialise in the export of such goods in which it has comparative advantage, (ii) To send her goods to such markets where it may be possible to face the foreign competition and (iii) to pay for the essential imports. Secondly, the pattern of imports may be changed in such a way that it may be possible to secure all those goods necessary for carrying out the development programme laid down in the Plan.

Thirdly, our exports should be of a diverse type and they should be distributed over a large number of countries. We should not confine our foreign trade only to a small number of exports, and we should pay more attention to the markets of neighbouring countries in Asia and Africa.

The development of new exports and of new markets would be much better if side by side we develop our own banking, insurance, and shipping services because if these services are under foreign control, our trade and industry are at a disadvantage and it is a great loss to the country as a whole. Our export trade will develop much better in the markets of the Middle East and Far East if we have our own banking and insurance houses and develop Indian shipping.

### Questions and Projects.

1. Describe the main features of India's Inland trade.
2. What do you know about India's coastal trade ?
3. Describe the nature of India's foreign trade. What are its main characteristics ?
4. How did the Second World War affect our foreign trade ?
5. What have been the effects of partition on the foreign trade of the country.
6. Describe the causes of the adverse balance of trade in India in the Post War period.
7. What measures have been adopted by the Government to correct the adverse balance of trade ?
8. What steps have been taken to stimulate and promote our exports to the various countries ?

9. Prepare a brochure on the foreign trade of India giving the main trends since partition and salient features of the present day foreign trade. Also, mention the main imports and exports and their relative importance in the composition of our trade. Give also the direction of the Indian trade mentioning the various countries having the trade relations with India.

10. Describe the main features of the present day foreign trade.

11. What are the export promotion councils and what are they doing to increase the exports ?

12. On what lines should India's foreign trade be reconstructed ?

13. What can be the short term measures to shape our trade policy on proper lines ?

14. Describe the possible long-term measures for having a balanced foreign trade in our country.

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## CHAPTER VIII.

### Indian Currency and Exchange.

Brief History of the System—Paper Currency System—I.M.F.  
Devaluation of the Rupee—Exchange Control—The  
Empire Dollar Pool—Sterling Balances—  
Decimal Coinage.

#### Importance of the System of Currency and Exchange.

As money economy is the basis of the present economic order, the currency system plays an important part in the development of a country. There is a close relation between the money and the price level of a country because the various aspects of the economic life *viz.*, production, distribution, savings and consumption are regulated through the mechanism of price. The price-level can be adjusted to the needs of the country's economy with the help of the currency system.

The economy of every country is connected with those of other countries through international trade and investment. The problems of foreign exchange and of the rate of exchange arise between the various countries on account of the existence of their different types of currencies. On the other hand, imports, exports, internal prices and production are also influenced by the rate of exchange. Too many changes in the rate of exchange hinder the progress of the international trade and create disorders in the internal business. If one country devaluates its currency, it has repercussion on the imports and exports of some other countries.

The currency system of a country must be suitable enough for the adjustment of price-level and the rates of exchange in the best interests of the country and conducive to increased production and higher standard of living. In order to understand the currency system of India properly, it is very essential for us to study its growth and development through the various phases. Its development in the past can be studied into four main stages *viz.*, (i) Silver Standard (ii) Gold Exchange Stand-

ard (iii) Gold Bullion Standard and (iv) Sterling Exchange Standard.

*Silver Standard.*—Before 1835, a number of silver and gold coins (about 994) of different weights and fineness were circulating in different parts of India. Such a confusion in the currency system of the country proved to be a great obstacle in the growth of the East India Company's trade. In order to bring about some uniformity, the Currency Act of 1835 was passed by the Company. This act provided for the free coinage of silver rupees containing 180 grains of silver (11/12th fine) as well as the coinage of gold coins on public demand. The treasuries had begun to accept gold mohurs at the rate of  $15\frac{1}{2}$  silver coins for one gold coin. After sometime, gold coins were no longer in use and India was virtually on the silver standard. After 1870, owing to the discovery of silver mines, the price of silver declined from 60*d.* per oz. in 1872. to 29*d.* per oz. in 1894. It resulted in a decline of the rupee-sterling ratio from 22·7*d.* in 1872 to 14·5*d.* per rupee in 1894. It created great difficulties for the government because it had to pay bigger sums in rupees to buy the same amount of sterling in order to make payments in sterling to England known as 'Home Charges'.

*Gold Exchange Standard.*—On the recommendation of the Herschell Committee, mints were closed for the free coinage of silver with the ultimate purpose of adopting the gold standard. Consequently, there was shortage of the rupee coins particularly owing to the expansion of trade and industry. The value of the rupee gradually increased and it rose to 16*d.* in 1898. The Government also accepted the recommendations of the Fowler Committee which had been appointed in 1898. Accordingly, sovereigns were declared legal tender in 1899. Sovereigns and half-sovereigns were issued to the public by the Indian Treasury with the ultimate purpose of establishing a gold standard. Owing to the famine conditions, the gold coins returned back from the circulation and the Government had to coin rupees to meet the increased demand for them. The rupee-sterling ratio was fixed at 1*s.* 4*d.* (i.e., Rs. 15 to £). As India was having a favourable balance of trade during this period, the Secretary of State started selling Council Drafts to those English merchants who wanted to make payments to India for the goods imported from here. In 1907, there was adverse balance of trade for India owing to failure of crops etc., the rate of exchange tended



to fall below 1s. 4d. per rupee. The Government started selling the Reverse Council Drafts to Indian importers. This is how Gold Exchange Standard came to be established and not the Gold Standard.

The implications of the Gold Exchange Standard were, that (1) Indian currency consisted of paper currency notes or of coins of silver and other metals and not gold, (2) the monetary authorities undertook to give gold in exchange for local currency at a fixed ratio, (3) gold was not given within the country in exchange for local currency but at some foreign centre, and (4) the authorities kept the gold reserves in England. The main difference between the gold standard and gold exchange standard is that under the former system, gold is available from the monetary authorities within the country in the form of gold coins or gold bullion while under the latter system, gold is available outside the country.

Our country was on the gold exchange standard during the period 1900—1917. During this period instead of gold coins, silver rupees and paper currency notes circulated. But the government undertook to give sterling in London in exchange for rupees in India at the rate of 1s. 4d. per rupee. As England was on gold standard during this period, her currency (sterling) was convertible into gold. Hence receiving of sterling in exchange for rupees was as good as gold. Also, the various currency reserves *viz.*, the Gold Standard Reserve and the Paper Currency Reserve were kept mainly in London. The rate of exchange was kept fixed at 1s. 4d. through the sale of Council Drafts in England and Reverse Council Drafts in India.

#### **Merits and demerits of this system.**

1. This system meant a great economy in the use of gold though it worked in the same way as the gold standard.

2. The same gold reserves which were located in London served as the basis of both the monetary systems *i.e.*, of Britain and India.

1. Generally, it led to an increase in rupee circulation and consequent rise in prices in India.

2. Prices did not fall in England as they would have done under gold standard.



3. These defects in the system were mainly owing to the absence of any Central Bank in India.

During the time of the First World War, this system broke down on account of a rise in the price of silver. India was having a highly favourable balance of trade. There was a great demand for silver rupees and people were liable to melt the silver rupees and sell them as bullion. The rate of exchange had to be raised to 17*d.* per rupee in 1917. The rupee-sterling ratio shot up to 2*s.* 4*d.* per rupee by 1919. This is how the gold exchange standard broke down.

On the recommendations of the Babington-Smith Committee, the Government fixed the ratio at 2*s.* gold. But soon afterwards, there was adverse balance of trade. Therefore the Government could not maintain 2*s.* ratio and left the rupee free to find its own level. The rate came down to 1*s.* 3*d.* sterling in 1921 and rose to 1*s.* 6*d.* sterling in 1924. It was raised to 1*s.* 6*d.* gold in 1925 by limiting the supply of currency. These fluctuations in the exchange rate caused great loss to Indian industries and business. India also lost her sterling reserves of the value of Rs. 35 crores.

### **Gold Bullion Standard.**

In 1925, the Government appointed the Hilton Young Commission to examine and report on the Indian currency and exchange. The main recommendations of the Commission were as follows :—

(a) The currency system of India should be on Gold Bullion Standard. No gold coins were to remain in circulation. Gold was to be purchased and sold by the currency authorities at fixed rates in quantity of not less than 400 ounces. Gold could be demanded only for exports and not for internal non-monetary purposes. It was meant to peg the ratio to the fixed rate.

(b) The rate of exchange was to be stabilized at 1*s.* 6*d.*

(c) A Central Bank known as the Reserve Bank was to be established for the control and management of currency.

(d) There were some other recommendations in regard to the amalgamation of the Paper Currency and Gold Standard Reserves and the conversion of paper notes.

The Government passed an act in 1927 with a view to introduce Gold Bullion Standard. The price of gold was fixed at



Rs. 21-13-10 per tola. Fixing a minimum limit of 400 oz. of gold was considered improper for a poor country like India and the lower limit was fixed at 40 tolas. Sovereigns and half-sovereigns were accepted at the treasuries at the rate of Re. 13-2-4 per sovereign. India continued to be on this standard till 1931 when England went off the gold standard.

The recommendation regarding the establishment of Reserve Bank as the Central Bank of the country, created a heated controversy in the country. In the first instance, the idea had to be abandoned. It was only later on by 1935, that the Reserve Bank was established.

*Ratio Controversy* (1s. 6d. vs. 1s. 4d.)—The commission had recommended 1s. 6d. on these grounds :—(1) Prices had been adjusted to the world prices at this rate, (2) In the same way, wages had been adjusted to the price level and (3) much harm was not going to be caused to contracts which were generally of short term, (4) lowering of the rate to 1s. 4d. would cause  $12\frac{1}{2}$  per cent rise in price-level and would hit the poor middle class and the consumers hard, (5) real wages of labourers will be reduced, (6) Government of India's finances would be upset and (7) during the last 8 years, 1s. 4d. could not establish itself effectively.

Sir Purshottam Das Thakurdas who opposed the 1s. 6d. rate, was in favour of 1s. 4d. for these reasons :—(1) all other countries had restored their currencies to the pre-war parity and there was no reason for India to stick to a higher rate. (2) Wages had not adjusted to 1s. 6d. rate. They will have to be lowered and it might lead to labour trouble. (3) The ratio of 1s. 6d. would make the foreign goods cheaper by  $12\frac{1}{2}$  p. c. resulting in a loss to Indian industries. (4) The burden of debt taken by cultivators before 1917. would be increased upon them by  $12\frac{1}{2}\%$ . (5) 1s. 4d. rate would raise price level and help the producers who form 79 p. c. of the population and (6) the adverse effects of 1s. 4d. on the public finance are not likely to be too much.

Later events proved that the rate of 1s. 6d. was too high. Trade depression started in 1929 all over the world and there was devaluation of some European currencies in 1936. The Indian producers found themselves at a disadvantage because there was a considerable decline in India's foreign trade. Bal-

ance of trade became unfavourable to India and the Government found it difficult to maintain the ratio at 1s. 6d. owing to a great demand for sterling. Export of big amounts of gold considered as a sign of disequilibrium in trade and a large section of people demanded the devaluation of rupee to 1s. 4d.

### **Sterling Exchange Standard.**

In September, 1931 England went off the gold standard. The Indian Government also decided to follow suit and they stopped selling gold bars in exchange for rupees. Thus rupee was no longer linked with gold but with sterling. In this way, Sterling Exchange Standard came to be established in India. The value of the rupee was kept fixed in terms of sterling at 1s. 6d. per rupee. The authorities undertook to buy and sell sterling upto any amount at fixed rate. It led to a rise in the price of gold and large exports of gold were made from India.

There was much criticism against this Sterling Exchange Standard. The Indian rupee had no independent value of its own and its value fluctuated with that of sterling. But there was no better alternative to this. Adopting of a gold standard by India at that time was not advisable because most of the countries had gone off the gold standard. Nor it would have been convenient for this country to have an independent currency standard because she had to make large payments in sterling every year and most of her foreign trade was conducted in terms of sterling. An independent currency system would have caused some difficulty to the government because they would not have known about their sterling obligations. Hence, in view of all these considerations, sterling exchange standard was perhaps the only choice for our country at that time.

*Gold Exports.* Before 1931, India used to import gold in large quantities and was considered as a sink of precious metals. But in the thirties, India exported gold of the value of Rs. 351.4 crores. The price of gold had risen from Rs. 21 13-10p. per tola in 1931 to Rs. 31-10-6p. in 1932. Therefore, many people sold their gold. Owing to the general economic depression, there were conditions of misery and unemployment in the country. Such depressing circumstances all the more induced the general people to sell away their small amounts of gold. The main reason why gold was exported from India in large quantities, was that the price of gold was higher in



other countries than India. It was quite profitable for merchants to purchase gold in India and sell it in England because its sterling price was higher than the rupee price.

The government who were finding it very difficult to maintain the ratio at 1s. 6d. per rupee owing to adverse balance of trade, took advantage of the exports of gold from India. They could get large sums of sterling in exchange for gold exports to meet their sterling obligations. It enabled the government to maintain their ratio at 1s. 6d. per rupee. The Currency Reserves which had been drained off before, were strengthened with large supplies of sterling. But these exports of gold from India came to be severely criticized by a big section of Indian opinion. Their contention was that the high ratio of 1s. 6d. was being kept up through the exports of gold and that India was losing her reserves of gold at a fast speed whereas other countries were sitting tight over their gold reserves. They wanted the gold exports to be banned to check the exports of distress gold, from India. But the government's plea was that the people were turning their hoards into investible funds which would be available for the development of trade and industry and that the high price received by the Indian masses for their gold helped them to relieve their distress caused by depression. It also enabled the government to pay off a debt of £15 million and to meet their periodical sterling obligations.

### **Paper Currency.**

Before 1861, the currency notes were issued only by the three Presidency Banks of Bengal, Madras and Calcutta. In 1861, the first Paper Currency Act was passed according to which, the government began to issue notes on the basis of the fixed fiduciary system as it was in England. The maximum limit of the fiduciary portion was fixed at Rs. 4 crores and the notes above 4 crores were to be fully covered by reserves of coin and bullion. The country was divided into seven circles for the purpose of note issue. The notes issued in one circle were legal tender only there. The notes were of Rs. 5, 10, 50 and 100 and were unlimited legal tender. This system provided ample security for the conversion of paper notes. But it was inelastic as the issuing of notes above Rs. 4 crores, meant locking up an equal amount of metallic reserves.

Gradually, the circle system came to an end and notes were begun to be cashed at any place in India. The limit of fidu.



ciary issue was raised from time to time. It became Rs. 14 crores just before the first world war and had to be increased to Rs. 120 crores by 1920. In the early years, the Paper Currency Reserve consisted of silver coins and bullion in the metallic portion and rupee securities in the fiduciary portion. After 1898, Paper Currency Reserve began to consist of gold coin and bullion and the fiduciary portion of sterling securities. The gold portion was held partly in India and partly in England and the sterling securities were kept in London only.

During the war, owing to the scarcity of silver, rupee coins could not be coined. Therefore, one rupee and two-and-a-half rupee notes had to be issued. After the war, on recommendation of the Babington-Smith Committee, fixed fiduciary system was given up and proportional representation system was adopted. The minimum metallic reserve was to be 50 p.c. of the total reserve (as against 40 p.c. recommended by the Smith Committee) with the exception of Rs. 20 crores worth of securities held in India. Also, the Controller of Currency was authorised to issue notes upto Rs. 5 crores (later raised to Rs. 12 crores) in emergency. These extra notes were issued for a maximum period of 3 months and were given to the Imperial Bank as a loan.

But the defect of inelasticity was still there in the paper currency system. In the busy season lasting from November to April, large funds were required for sending to the rural areas to finance the movements of crops. In the slack season, these extra funds came back to the banks. Hence, the paper currency system was to be made elastic—expanding during the busy season and contracting in the slack season. It was for this reason that the Hilton Young Commission had recommended the adoption of the full-fledged proportional reserve system.

*Note Issue by the Reserve Bank.* After the establishment of the Reserve Bank in 1935, the note issue function was given to it by the Government. According to the Reserve Bank Act, the sole right of note issue was given to this Bank which was to set up an Issue Department for this purpose and was to keep proper reserves. The Issue Department is kept separate from the Banking Department. As the note-issue was to be on proportional reserve basis, therefore Reserve Bank maintained a minimum metallic reserve of 40 p.c. against the



note issue. These reserves consisted of gold and foreign securities. The amount of gold reserve (gold coins and bullion) could never fall below 40 crores of rupees. In addition to these reserves, other reserves were kept in the form of rupee coins, Government of India Securities, commercial bills of exchange maturing within three months and agricultural bills maturing within 9 months. Only with the previous permission of the Government, the amount of gold and foreign securities could fall below 40 p.c. But the Bank was to pay a tax on the deficiency.

### **The Present System of Paper Currency Reserve.**

The Proportional Reserve System of note issue which had been in operation since 1935, was changed in 1956 because there had been an unnecessary limit to the power of the Reserve Bank to issue paper currency notes. Now, the Reserve Bank is required to keep a minimum reserve of Rs. 115 crores in gold and Rs. 400 crores in foreign securities. Thus, the total minimum reserves are of an amount of Rs. 515 crores. The gold kept in the reserves, had been valued at Rs. 21-3-10 p. per tola upto 1956, has been revalued at Rs. 62.50 per tola. It has resulted in an increase of the value of gold held by the Reserve Bank, from Rs. 40 crores to about Rs. 115 crores. The minimum reserves are to be kept at the level of Rs. 515 crores in normal conditions. Only in case of emergency, the amount of foreign securities can be lowered to Rs. 300 crores with the permission of the Government of India. It can be done only for a period of 6 months in the first instance.

In this way, the proportional reserve system has been abolished. But we are still retaining the old practice of linking the note issue to foreign exchange reserves. The only purpose served by the foreign exchange reserves, is that of helping the country in case of unfavourable balance of payments.

It is the liability of the Reserve Bank to convert the paper currency. But the one-rupee note is inconvertible into any other coin or bullion. However, our present currency system is fairly elastic because more paper currency can be issued at any moment against rupee securities and in case of need, against bills of exchange. In actual practice, in case of need for additional paper currency, the Bank can issue more notes by transferring rupee or sterling securities or both from the Banking Department to the Issue Department or by keeping



ad hoc treasury bills in the reserve. These securities are again transferred to the Banking Department when the additional paper notes come back from circulation.

### **Currency and Exchange.** Since the war (1939—58).

The out break of the war in 1939 began to affect the Indian currency system. The bad news of the war made the people of this country nervous. They began to hoard rupee coins and small coins. They made a rush to get their notes converted into rupees. In June 1940 when the news of the fall of France came, notes of the value of Rs. 15 crores were presented for conversion. In order to restore the public confidence, the Government permitted the conversion of notes into rupees and also issued one-rupee and two-rupee notes to meet the situation. As there was danger of rupee coins being melted and sold as bullion in the market, the Government withdrew from circulation the old rupee coins containing 160 grains of silver and replaced them by rupee coins containing 90 grains of silver. Eight-anna and four-anna pieces of silver were also withdrawn from circulation, and were replaced with coins containing half the amount of silver. The shortage of small coins was met by minting a large number of small coins.

There was a large expansion of currency and bank deposits during the war period. The amount of notes in circulation increased from Rs. 196·14 crores to Rs. 1147·14 crores in 1945. So much of paper currency had to be Issued in order to meet war needs. The sterling securities in the Issue Department of the Reserve Bank had increased from 60·50 crores in 1939 to Rs. 1042·33 crores in 1945. In 1939, the sterling securities in the reserve were only 30 p.c. of the note issue while in 1945, they amounted to 90·8 p.c.

In the same way, the deposits of the scheduled banks increased from Rs. 232·33 crores in 1939 to Rs. 897·58 crores in 1945. The total amount of money in circulation increased from Rs. 341·68 crores in 1939 to Rs. 1961·38 crores in 1945. It naturally led to a rise in the price level to a great extent.

We give below a table published in the Reserve Bank's Report on currency and Finance 1945-46, indicating the expansion in currency, bank deposits and rise in the price level in India and some other countries.



Indices of average monthly note circulation, Demand Deposits and wholesale prices.

|        |            | (Index—July 39=100) |      |      |      |
|--------|------------|---------------------|------|------|------|
|        |            | 1939                | 1941 | 1943 | 1945 |
| India  | { Notes    | 102                 | 152  | 416  | 686  |
|        | { Deposits | 101                 | 144  | 319  | 509  |
|        | { Prices   | 105                 | 139  | 307  | 280  |
| U.K.   | { Notes    | 103                 | 128  | 190  | 263  |
|        | { Deposits | 101                 | 152  | 198  | 263  |
|        | { Prices   | 102                 | 155  | 166  | 173  |
| U.S.A. | { Notes    | 102                 | 151  | 316  | 538  |
|        | { Deposits | 103                 | 137  | 185  | 221  |
|        | { Prices   | 102                 | 116  | 137  | 143. |

The above figures indicate that the increase in note circulation, deposits and wholesale prices moved at a faster rate in India as compared to the U.K. and the U.S.A.

There was one welcome feature of the war period for India. The accumulation of sterling balances on a large scale helped India to pay off the major part of her sterling debts. In seven years, (1939 to 1946) the total amount of sterling debts wiped out by India, amounted to £320·13 million.

#### From 1945 to 1947.

The same tendencies continued even after the war in regard to note circulation, bank deposits and the general price level. There was increase in the note circulation from Rs. 1147·14 crores to Rs. 1199 crores, in the deposits of the scheduled banks from Rs. 714·13 crores to Rs. 857·23 crores and in the general price level from 242·2 to 299·3. This period also saw the establishment of the two well-known international institutions viz. (1) The International Monetary Fund and (2) the International Bank for Reconstruction and Development.

*The International Monetary Fund (I.M.F.) and India.* The I.M.F. was established to promote International monetary co-operation and exchange stability. The Allied Powers started this institution in 1947 to maintain reasonable stability in the rate of exchange. Each member has a fixed quota in the Fund and is required to deposit a minimum of 25 per cent of the quota. The fund has gold as well as the currency of all the member countries.



One of the main functions of this organisation is to help the member countries to stabilise rates of exchange or to introduce a change in their rates of exchange. Each member keeps the I.M.F. informed about the par value of its currency in terms of gold or U.S. dollar. All transactions between the member countries takes place at this official rate. Owing to some changes in its economy, if a country wants to change its rate of exchange, it can do so with the permission of the authorities of the I.M.F. Thus a country can change its rate of exchange not through its unilateral action but through international agreement. In order to meet the short period deficiency of an adverse balance of payment, I.M.F. extends short term credits to member countries on certain conditions.

As India is one of the original members of I.M.F., it has led to certain changes in her currency system. For example, the most important change is the delinking of the rupee from sterling. So, it is no longer obligatory for the Reserve Bank to maintain the 1s. 6d. ratio though this rupee-sterling ratio happens to be in existence upto now. The par value of the rupee is fixed in terms of gold or dollar *i.e.*, 0.268601 grams of fine gold or 30.23 cents per rupee. The rupee is now an independent currency. It has now direct links with the currencies of different countries of the world and is no longer connected with them through sterling as was the case before 1947. The Reserve Bank is no longer required to keep 'sterling securities' as a backing to its paper currency. It can now buy and sell the currency and securities of any country which is a member of I.M.F. These 'foreign securities' can also be kept as reserves against the paper currency.

India has also taken advantage of the short-term credits granted by the I.M.F. and has borrowed from time to time large amounts of dollars in order to meet the deficit in her balance of payment. For example, 100 million dollars (Rs. 47.6 crores) were borrowed for this purpose in 1948-49. Sometimes back she borrowed 200 million dollars (about Rs. 95.3 crores) for a short period to tide over her difficulties at the commencement of the Second Five Year Plan. A loan of 200 million dollars was taken by India in 1957. India is entitled to draw 500 million dollars from I.M.F. in five years but she does not intend to take so much from the I.M.F. Our country needs help



on long term basis while the I.M.F. advances only for short periods.

*The Currency arrangement after 1947.* After the partition of the country, a number of problems arose in relation to currency. The Reserve Bank of India continued to serve as banker to the Government of Pakistan. It also performed the function of note issue till June, 1948. Arrangements had to be made to determine the share of Pakistan in the assets of the Reserve Bank of India. Assets of the value of Rs. 51·57 crores from the issue department of the Reserve Bank, were handed over to the State Bank of Pakistan. The Reserve Bank also purchased the Indian notes of the value of Rs. 127·17 crores which were withdrawn from circulation in Pakistan.

The Indian and the Pakistan rupee were at par upto 20th September, 1949. Following England's example when India devalued her rupee, the government of Pakistan refused to do so. This led to a complete breach in the currency systems of the two neighbouring countries.

### **Devaluation of the Rupee.**

Devaluation is lowering of the rate of exchange of a currency in term of other currencies. More units of the devaluated currency become available to the foreigners in exchange for a unit of their currency. Goods of the devaluating country become cheaper in terms of foreign currencies. On the other hand, foreign goods become costlier for the people of such a country. It naturally leads to an increase in exports and decrease in imports in the devaluating country. The countries who happen to have an adverse balance of payments persistently, generally resort to devaluation in order to correct their balance of payments.

*Factors leading to Devaluation.* In spite of decline in the total money supply with the public, the general index of prices rose from 271·3 to 389·8 during the period May, 1947 to September 1949. There was deficit in the balance of trade and a consequent decline in the holdings of foreign assets of the Reserve Bank from Rs. 1523·42 crores in 1947 to Rs. 781·05 crores in 1949.

The most serious factor was that India had a deficit in her balance of payments with the hard currency areas. This deficit increased from Rs. 10·4 crores in the first six months of 1948

to Rs. 32·3 crores in the latter half of 1948 and further increased to Rs. 49·7 crores in the first half of 1949. There continued this steep rise in deficit with hard currency areas on account of a decline in our exports and a great increase of government imports. Our exports were meeting with great competition in hard currency areas as well as other countries of the world. This growing adverse balance of trade was a matter of serious concern to the government of India who tried to set it right by cutting down imports from the dollar areas.

India had to resort to devaluation on account of certain events taking place in England and other sterling countries. In the post war-years, English exports could not expand owing to inflation and high cost of production prevailing in that country. On the other hand, her imports increased from the dollar areas. As a result, England was compelled to use up her gold and dollar reserves to meet the dollar gap. There was also a considerable decline in the central reserves of the sterling areas. Owing to the rumours of devaluation of the sterling, the American postponed their purchases of the British goods hoping to take advantage of the devaluation of the British currency. It worsened the situation still further. All these events reached the climax by September 1949 and therefore the British government was compelled to announce the devaluation of sterling in terms of dollar. Many other countries both within and outside the sterling area had to follow suit.

The Government of India also were left with no choice in the matter and they announced the devaluation of rupee by the same percentage, *i.e.*, 30·5 p.c. In this way, the value of the rupee could be kept at the rate of 1s. 6d.

The main reasons for India to devalue were as follows :—

(a) Most of the Indian trade was conducted in terms of sterling. In fact, the sterling area countries were our main customers and they had all devaluated their currencies with the exception of Pakistan.

(b) If India had refused to devalue, the rate of exchange would have gone up in terms of sterling. It would have automatically led to a decline in our exports to the sterling countries there by creating the difficult problem of adverse balance of payments.



(c) Most of our competitors in the foreign markets are the sterling area countries. For example, in selling tea to Britain, Ceylon is a keen rival to India. In case of non-devaluation by India, the price of our tea would have risen in the British market as compared to that of Ceylon. It would have led to an abrupt fall in our tea exports to Britain who is our most important customer of this commodity. Thus, a policy of non-devaluation would have resulted in a general decline of our exports.

(d) India was already facing a dollar gap. It was expected that she will be able to sell more goods to U. S. A. by devaluing her currency because her goods would become cheaper in terms of dollar.

*Results of Devaluation.* The immediate result of the devaluation was that our exports showed a record increase of about 38 p.c. for the quarter as compared to the previous quarter. It created a favourable balance of payments. There had been a deficit of Rs. 175·9 crores in the first 9 months of the year and it now changed into a surplus of Rs. 29·4 crores into the last quarter of the year. Owing to the devaluation of the rupee, the Indian exporters were able to sell more goods in the dollar area and the sterling countries. But some of these countries substituted the Indian goods with similar goods from dollar area countries.

However, the balance of payments had improved not only owing to greater exports but also less of imports into India. Our balance of trade did not continue to be as favourable in the first six months of 1950. Of course, it was also on account of our exporting less of jute manufactures, as our supply of raw jute had stopped from Pakistan.

Another result of devaluation was a rise in the general index of prices in our country from 389·0 in August, 1949 to 395·6 in June 1950. The biggest increase was in the miscellaneous index which went up from 541·6 to 692·0 during the same period. There was an increase of 30 points in the index of raw materials.

Owing to the outbreak of Korean War, the position underwent a great change. There were boom conditions throughout the world and stock-piling of raw materials was being done by

U. S. A. So it was difficult to gauge the effects of devaluation on prices or balance of payments.

The devaluation of the rupee did not exercise much influence on the balance of payments except in the immediate period of about one year, because the balance of trade had begun to turn against India in the second quarter of 1950. Moreover, the improvement even in that one year had partly taken place owing to the rigid control of imports by the Indian Government. Hence, devaluation of rupee could not bring about a great or lasting improvement in the condition of our foreign trade or in our economic condition in general. In fact it resulted in some disadvantage to us because we were required to pay higher prices for the imports of food grains from dollar areas. We also had to pay higher prices for machinery and other essential materials imported from U. S. A. The prices of raw cotton and jute imported from Pakistan rose by 44 per cent. As India refused to pay this high price, the production of cotton and jute textiles declined owing to a shortage of raw materials. These adverse results of devaluation proved it to be an unwise policy for the country. Instead of checking, it added to the inflation in the country and turned the terms of trade against India.

#### **The Demand for Revaluation.**

In 1950-51, our exports increased owing to the outbreak of the Korean war, stock-piling of raw materials by U. S. A. and rearmament drive by several countries. Therefore, there was no reason to keep the value of the rupee at the low level fixed as a result of devaluation. Moreover, the general index of price level had increased from 385·4 in 1949-50 to 409·7 in 1950-51 and to 434·7 in 1951-52. This was another reason for the revaluation of the rupee—ratio in the upward direction. Even Dr. John Mathai who was the Finance Minister of India at that time, expressed his opinion in favour of a higher value of the rupee. The other arguments for a higher rupee ratio were :—

(a) It would bring down the general level of prices in the country. Thus, inflation the most serious problem, of the country, would be checked.

(b) It would lower the prices of our imports and India would be able to get foodgrains, raw materials and capital



goods at lower prices from U. S. A. It would result in some advantage to the Government and the industry.

(c) The lowering down of prices to reasonable levels would also improve the competitive position of our exports.

(d) Higher value of rupee was also likely to end our quarrel with Pakistan which had arisen at that time on account of devaluation of Indian rupee. India would be able to get raw jute and cotton at a lower price from Pakistan, and the production of cotton and jute manufactures would be enhanced. The jute exports would be fully revived.

The Government opposed the proposal for revaluation as it was likely to create more problems. There was also the danger of a greater deficit in our balance of payments. The inflation could be checked more effectively by internal monetary measures rather than by increasing the value of the rupee. Actually some anti-inflationary measures were adopted from November, 1951 and they helped considerably in lowering of the prices. Moreover, the slackening of the Korean War and cessation of stock-piling by U. S. A. led to a decline in our exports. Under these changed conditions, Government's point of view became all the more convincing and strong. Our exports had begun to face a severe competition in the foreign markets. Hence, revaluation would have caused a serious set-back to our exports and India would not have been able to earn the necessary foreign exchange for purchasing her requirements.

### **Exchange Control.**

The main feature of exchange control is the fixing of the exchange rate of the home currency in terms of gold or some foreign currency. It also implies the imposition of control over the sale and purchase or the import and export of foreign and home currency. Some sort of exchange control has existed since 1893. For some time, the rate of exchange was maintained by the sale of Council Bills and Reverse Council Bills. At another time it was kept up by exports of gold. During the Second World War period, it was not at all difficult to maintain the fixed exchange rate because India was having favourable balance of trade throughout. But during the post-war period, particularly after the partition, India began to have an unfavourable balance of payments. Therefore, the Govern-

ment had to impose strict restrictions on the purchase and acquisition of foreign exchange.

*Exchange control measures during the period of the Second World War and after.*—During the period of the Second World War, the Government had acquired the following powers in regard to exchange control. (i) To impose restrictions on purchase of foreign exchange, (ii) to acquire foreign exchange, (iii) to restrict purchase and export of securities, and (iv) to acquire foreign securities. The Reserve Bank exercised these powers on behalf of the Government through a newly created Exchange Control Department.

No particular restrictions were imposed on the transactions in the currencies of the Empire countries which were in the sterling area. But a rigid exchange control was imposed on the purchase and sale of currencies outside the sterling area. The rate of exchange in terms of such currencies was determined by London Exchange Control and the rupee rate depended upon the rupee-sterling ratio.

As the exchange problem was closely related to trade, therefore the Reserve Bank controlled the imports and exports of India in order to exercise an effective control. It was done through the following methods :—

1. *Acquisition of foreign exchange*—As the exports were also under control, the foreign currency received for them could not be retained abroad. It was to be placed at the disposal of the Reserve Bank or used in a manner approved by this authority.

2. If any body residing in India acquired some dollar balances and securities, they were placed in the Empire Dollar Pool. The Reserve Bank, which paid the equivalent rupees to the holder, received the sterling securities from the Bank of England.

3. Restrictions and controls were imposed on imports. Goods could be imported from outside the sterling area only through a licence taken from the government.

4. For making remittances to countries outside the sterling area for private purposes, trade purposes or any other purposes, prior permission of the Reserve Bank was to be obtained.



There were severe restrictions on expenditure incurred on such items.

5. A permission was to be taken from the Reserve Bank for taking gold outside India. Import of gold could also be done through a licence from the Reserve Bank. Securities could not be acquired from any person not residing in India and could not be exported outside without the permission of the Reserve Bank. In case of exporting foreign securities, the proceeds were to be handed over to the Reserve Bank.

6. Cash and jewellery could be sent outside India only upto a certain limit. Currency notes or coins, Indian or foreign, could not be taken out of India except under a licence from the Reserve Bank.

The idea behind all these regulations was to acquire all the available foreign exchange proceeds and to utilize them for the most urgent needs of the war. These restrictions continued even after the war and are in force upto now. They are necessary for maintaining the balance of payments according to the needs of the Plan and for keeping up the ratio of the rupee with the help of the I.M.F.

*Empire Dollar Pool* (During the period of the war). Before the last world war, sterling was easily convertible into other currencies. The member countries of the sterling area used to keep foreign exchange balances not in different currencies in different places but in London in the form of sterling. Any currency could be available to them in exchange for sterling.

But during the war period, sterling could not be converted into other foreign currencies. Even then, the sterling area countries continued the practice of keeping their foreign exchange reserves in a common pool under the charge of the Bank of England and the British Treasury. As the most important foreign currency in this pool used to be the U.S. dollar, therefore, it was known as the Empire Dollar Pool. It could have been better known as 'the sterling area foreign exchange pool'. The deposits and withdrawals of foreign currency made by the different members were not recorded separately and each member could withdraw as much foreign currency as it needed.



As the foreign currency was limited in the pool, therefore each member was expected to draw out only as much as was absolutely essential for it. In the war period (1939–46), India's credits to the Pool were of the value of Rs. 405 crores and withdrawals amounted to Rs. 240 crores (of dollars) and Rs. 51 crores of other hard currencies e.g., of Canada. Thus India made a net contribution of Rs. 114 crores to the Pool.

*The Post-War Period.* After the war, heavy withdrawals were made from the Pool. India also drew from the Pool more than her contribution in order to finance her unfavourable balance of trade with U.S.A. and other dollar area countries. As a result of the heavy withdrawals, the reserves of the Pool fell to a low level. Therefore, the member countries decided to restrict their dollar expenditure to 75 per cent of that in 1948. Later on, sterling and other currencies were devaluated in order to strengthen the reserve because it was expected to increase exports to the dollar countries. But the devaluation did not result in much improvement.

In this way, the sterling area countries have become one unit for the purposes of dealing with non-sterling countries. It is in the interest of all these countries to maintain the stability of sterling and its exchange rate with dollar. It is in their interest to deal jointly with dollar which is a scarce currency. Whatever foreign exchange is earned by a member country, it is handed over to the Pool. If a country makes some withdrawals from the Pool, her sterling balances are reduced to that extent.

The Finance Ministers and financial experts of the sterling area countries meet from time to time to think of ways of increasing the trade within the Commonwealth so that there may not be a drain on the Pool. They try to find out methods to strengthen the Pound. Sometimes back, they made a request to U.S.A. to raise the official price of gold so that the total value of reserve may rise in terms of dollar.

### **Sterling Balances.**

Even before the last world war, the Reserve Bank used to keep sterling securities in London as a part of currency reserve. Just before the war, these sterling reserves kept in London, amounted to about Rs. 64 crores. During the war, there was a tremendous increase in India's sterling balances and they



amounted to Rs. 1773 crores in 1945-46. After partition, they stood at Rs. 1516 crores.

### Sources of their accumulation.

1. According to the agreement, India's expenditure over the war was to be limited. Whatever was spent by India above that, was paid for by the British in sterling. The Reserve Bank received all this sterling in exchange for rupees paid for the purchases of materials or the salaries and allowances of the Indian soldiers fighting for the allies. The biggest amount of sterling was received in this way.

2. Direct purchases of food and other materials were also made by the British Government in India and were paid for in sterling to the Reserve Bank who was required to make payments to the Indian public in rupees.

3. Throughout the war period, India had a favourable balance of trade with Britain and other sterling countries. For the surplus balance, she received sterling which were again handed over to the Reserve Bank in exchange for the rupees paid by the latter to the Indian merchants and exporters.

4. During the war, India had a favourable balance of trade with America who also incurred military expenditure in India. In this connection also, India received sterling from England in exchange for dollars.

5. The Reserve Bank deposited the dollar and other non-sterling securities belonging to Indians in the Empire Dollar Pool and received sterling in exchange. The owners of these securities received payment in the form of rupees from the Reserve Bank.

The various amounts of sterling credited to India were as follows :—

|  | ( Crores of Rs. ) |
|--|-------------------|
| 1. Sterling Assets, August 1939                        | 64                |
| 2. Sterling acquired between Sept. 1939 and March 1946 | 813               |
| 3. Sterling payments by His Majesty's Government       | 1632              |
| 4. Other Sterling Credits                              | 45                |
| Total  | 2554              |

### **Sterling amounts utilized by India.**

|  |      |
|--|------|
| 1. Repatriation of sterling debt upto March 1945 | 411  |
| 2. Sterling payments by Government               | 344  |
| 3. Sterling sales to public                      | 75   |
| 4. Sterling assets on 31-3-45                    | 1724 |

*Blood Cakes.* After the war was over, a section of the British people suggested for the repudiation or scaling down of these assets because they had accumulated on account of war expenditure in India and that the Allies had saved India from the Japanese aggression. The Conservative Government were of the view that the war materials were purchased in India at inflated war time prices. But some of the British people who said such things, never realized about the great sacrifices which the Indian people had to make in the accumulation of these assets. The Government of India collected funds by making large borrowings and imposing heavy taxes on the Indian people and incurred a big expenditure on defence on behalf of the Allied Powers. India was compelled to finance the war in which she had no interest at all. The result was that the Indian people who were already so poor and hard up, were required to further tighten up their belts and live on meagre rations because large amounts of food and other materials were taken away from India. Millions of people died in the Bengal famine. The supply of cloth, sugar, steel, cement and other essential commodities was drastically reduced for them. The railways and machinery in the factories were used up to finish. An enormous rise in prices inflicted untold miseries upon the poor people. Such were the blood and tears shed by Indian people in order to help the Allied Powers in men and materials. Thus these sterling balances were the result of this crushing sacrifice and they were nothing short of 'blood cakes'. Indians therefore felt indignant at the British move for the scaling down of these assets. Fortunately, the Labour Government came to power in England and they assured that sterling balances would be paid in full though gradually in instalments.

### **Release of Sterling Balances.**

After the war, India could freely draw on these external assets until 1947 when England and India decided for a methodical release of these balances. As U.K's condition had



become critical economically, only a limited amount was released in August, 1947. According to the agreement of January 1948, some more amount was made available and part of it was in foreign currency. In June 1948, another agreement was made for a release £160 millions over a period of three years. In 1951, another agreement was signed and it was to remain in force till 1957. As India had started with her First Five-Year Plan in 1951, need was felt for a release of bigger amounts to finance over development plans. During the First Plan period, the total amount of deficit financing was about Rs. 450 crores. It was mostly made up by sterling releases. It was for this reason that deficit financing did not result in inflation.

In the Second Five-Year Plan, the deficit financing is estimated to reach the figure of Rs. 1200 crores. The Planning Commission's idea was that the release of sterling balances would amount to Rs. 200 crores during the period of this plan. But during the year 1956-57, we had an adverse balance of trade by a big amount. This difference had to be made up by drawing more than Rs. 200 crores from our sterling balances. During the first year of the Plan, we had utilized a bigger amount than what was earmarked for the five years of Second Plan. In 1957-58, we had again a heavy deficit in our balance of payments in spite of great restrictions on imports. Therefore, a big amount of Rs. 260 crores had to be drawn from the sterling balances. In all, an amount of Rs. 479 crores had been drawn from the foreign assets of the Reserve Bank between April 56 and March 58 and only about Rs. 200 crores were left with the Reserve Bank. Since April, more demands have been made upon them. Now they should be augmented and not depleted any further because they are to serve in future not only as our currency reserve but also as a source of meeting deficits in our balance of payments at critical junctures.

*Decimal Coinage and the effects of its introduction.* The old coinage system consisted of the rupee coin and some subsidiary coins viz, eight-anna, four-anna, two-anna, one-anna, two-pice, one piece and pie pieces. The rupee was equivalent to 16 annas or 64 paisa. The pie was used only for accounting purposes. This system was suited to the present system of weights and measures.

From 1st April, 1957, decimal coinage system has been introduced. The rupee continues to be the standard coin. It is

equivalent to 100 Naya Paisa. So far, the new coins put into circulation are 1 Naya Paisa and 2, 5, 10 Naya Paisa. New 25, 50 and 100 Naya Paisa coins will be put into circulation later on and so far they are being represented by the old 4-anna, 8-anna and one rupee coins. The prefix 'naya' is only for the transitional stage. When the old coins are completely withdrawn from the circulation, it can be dropped. For the purposes of conversion of old coins into new coins, the Government of India issued conversion tables. These tables gave conversion rates upto one rupee. By now, the common man has become quite familiar with the new coins and finds no difficulty in converting the old coins into new coins, though most of the transactions are still quoted in terms of old coins. These will be expressed in terms of new coins only after the old coins have been completely withdrawn from circulation. Of course, banks, post offices, treasuries and other government institutions are working through the new system.

*Its effects.* The introduction of decimal coinage system had made auditing and accounting easier. In the present complicated system of trade and commerce, quick and easy calculations are most essential. The decimal system works in multiples often and is therefore easier.

It has augmented the government revenues particularly in the Post and Telegraph Department. Previously, 21 post cards could be had for one rupee, with a balance of one pice. Now one post card is for 5 nP. and 20 post cards are given for one rupee. Similarly, for one rupee we now get 6 envelopes and a balance of 10 nP. as compared to 8 envelopes previously obtainable. In this way, the income of the government has increased though it is only a type of disguised taxation for getting more revenues to finance the Second Plan.

In daily transactions involving small change, the buyers of many essential commodities stand to lose. Though this loss appears to be negligible in a single transaction but it would be quite substantial in the long run and particularly for the poor people. In most of the daily transactions, generally the buyer stands to lose as payments for fractional amounts are made in the nearest round figure.

Perhaps, the introduction of Naya Paisa has reduced the purchasing power of the rupee and thus added to inflation.



But the disguised taxation and inflationary effects resulting from the introduction of Naya Paisa, are insignificant. Also, the little losses which some people seem to be incurring, are only temporary till the old coins are in circulation with the new ones. After the withdrawal of old coins from circulation, the feeling of loss will completely disappear. The new system is making calculations and accounting a simple affair. The difficult problem of calculations will become still easier with the introduction of the metric system of weights and measures. The Government is already taking steps to implement this.

Out of 140 countries which issue their own coins, 105 have already adopted the decimal coinage. The United States was the first to adopt it. The only important country is England which has not adopted it so far because their automatic counting machines can not be changed.

### Questions and Projects.

1. How does the currency and exchange system influence the economy of a country ?
2. To what extent did the value of silver influence the currency system of India during the period (a) 1873-93 and (b) 1914-19 ?
3. How did the Gold Exchange Standard develop in India ? What were its merits and demerits ?
4. Describe the causes of its break-down during the period of First World War.
5. What were the main features of the Gold Bullion Standard and to what extent did it suit our needs ?
6. What led to the linking of rupee with sterling ? How was trade and industry affected by this ?
7. Why have there been large exports of gold from India since 1931 ? How has it affected our economy all along ? Would you as the currency authority of India ban its exports ?
8. Give in brief the development of paper currency system in India upto 1930.
9. What changes were introduced in the system after its being taken over by the Reserve Bank ?
10. What are the present arrangements for the issue and regulation of paper currency in India ? To what extent have the recent changes increased the security and elasticity of the note-issue ?



11. How did the last War effect the Indian currency ?
  12. Prepare a brochure on the International Monetary Fund, with a spotlight on the following things—(a) causes leading to its formation, (b) its composition, (c) main functions, (d) its effects on the Indian monetary system, and (e) its good effects on the general economic and financial conditions of its member countries.
  13. Describe the circumstances leading to the devaluation of the rupee in September, 1949. What were its immediate results ?
  14. Would you as the currency authority have stopped India from devaluation in 1949 ?
  15. How far was the demand for revaluation justified ?
  16. What do you understand by exchange control ? What exchange control measures were adopted during the last war ? Why are they being continued after the war ?
  17. What was the Empire Dollar Pool ? What led to its formation ? To what extent has it stabilised the currency and exchange position of the member countries ?
  18. What led to the accumulation of India's sterling balances in England ? How have they helped the country in the post-war development programme ?
  19. Why did the Conservative Government of England want a repudiation on scaling down of these Indian assets and on what basis was it opposed by the Indian opinion ?
  20. How were these Sterling Balances compared to 'blood cakes' ?
  21. Describe the gradual release of these Indian assets during the last 12 years.
  22. Prepare a brochure on the decimal coinage with a spotlight on the following points—(a) Main points of difference between the decimal coinage and our old coinage system, (b) Reasons for its introduction, (c) Attitude of the common man towards it, (d) Results of its introduction, (e) Its popularity all over the world, (f) Its relation with metric system of weights and measures.
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## CHAPTER IX.

### Co-operative Movement.

#### Meaning and Purposes of Co-operation.

Co-operation means the voluntary association of people on a basis of equality. This type of economic organisation is for the mutual assistance of each other. It aims at bringing together of powerless and isolated individuals for the promotion of their economic interests. It enables the poor and down-trodden people to attain higher standard of living. The most important feature of co-operation is "the abandonment of competition in distribution and production and the elimination of middlemen of all kinds."

Co-operative type of organisation is devoid of all profit motive and is mainly actuated by a spirit of mutual service. In this, the people combine together for promoting their common material and moral advantages. The workers also play the proprietors and share in profits on equal basis. So the main basis of co-operation is firstly voluntary because people enter into it of their own accord and secondly, it is democratic because persons of different positions come together on equal footing. The method of co-operation can be applied to production, consumption, credit and in fact to all branches of life. A co-operative society may be formed for producing a particular commodity or for conducting retail trade or for wholesale purchase of raw materials or for raising funds and lending to the members engaged in industry, agriculture and any other occupation.

#### Growth of the Co-operative Movement in the past.

The first co-operative societies were formed in Punjab and U.P. in the last years of the 19th century for the purpose of granting loans to agriculturists. Sir Frederick Nicholson who had been deputed to study this movement in Germany, recommended in his report for the establishment of co-operative societies on the Raiffeisen model. The Famine Commission also recommended for organising such societies in the rural areas.

As a result, the Co-operative Credit Societies Act was passed in 1904.

This Act provided for the formation of credit societies only. These societies were for the purpose of granting loans. They were of two types, rural and urban. In case of the rural societies, there was unlimited liability in case of each member and there was to be no share capital. The loans were to be granted only to members and for productive purposes only. In case of urban societies, there was to be share capital, and the liability of the members was to be limited.

As a result of this Act, a large number of co-operative societies were formed. Their number increased to about 10,000 by the year 1912. But this Act had some defects which were felt in its practical working. For example, it had not provided for the formation of non-credit societies. There was no point in making a two-fold division, urban and rural. Also, there were no central organisations to supervise the work of primary societies and to supply them with funds. The payment of dividends was not on a liberal basis.

In order to remove the above defects, the Co-operative Societies Act of 1912 was passed. According to this Act, non-credit societies such as sale societies, purchase societies and housing societies were formed. Secondly, the central societies such as supervising and guaranteeing Unions, Central and State Co-operative Banks were formed. Also, the distinction between the rural and urban societies was abolished and classification was done on the basis of limited and unlimited liability. There was to be unlimited liability in the case of societies formed by agriculturists, and in case of others, it could be either. As a result of this Act, the movement made some progress in different directions.

In 1914, the Maclagan Committee was appointed by the Government to review the progress of the movement. This Committee made several useful recommendations for the future development of co-operation. The Reform Act of 1919 made co-operation a provincial transferred subject under a minister. As a result, the movement made a fairly good progress. Several provinces passed separate Co-operative Societies Acts for the growth of this movement in their respective areas. The movement received a further stimulus through the reports and



recommendations of Royal Commission on Agriculture and the Central and Provincial Banking Enquiry Committees.

During the depression of the thirties, the movement received a set-back, because of the slump in agricultural prices and the consequent decline in the income of the farmer. The over-borrowers were unable to repay their loans on due dates. Overdues mounted up rapidly. Many societies had to be closed down and the weakness of the movement came to light. In spite of this set-back, the number of societies increased from 57·7 thousands in 1921-25 to 116·9 thousands in 1936-39. A thorough enquiry was conducted into the movement by the Agricultural Credit Department of the Reserve Bank of India. As a result of this, suggestions were made for consolidation and rehabilitation of the societies and for formation of multi-purpose societies in place of the single purpose ones.

With the beginning of the Second World War, there was a rise in prices and the situation was eased a little. Most of the agriculturists and members of co-operative societies repaid their overdues and the working capital of the societies increased from Rs. 94·6 crores in 1931-35 to Rs. 188·7 crores in 1946-50. The co-operative banks came to have more funds but the demands for fresh loans from the affiliated societies declined. Consequently, many of the banks and societies had surplus funds.

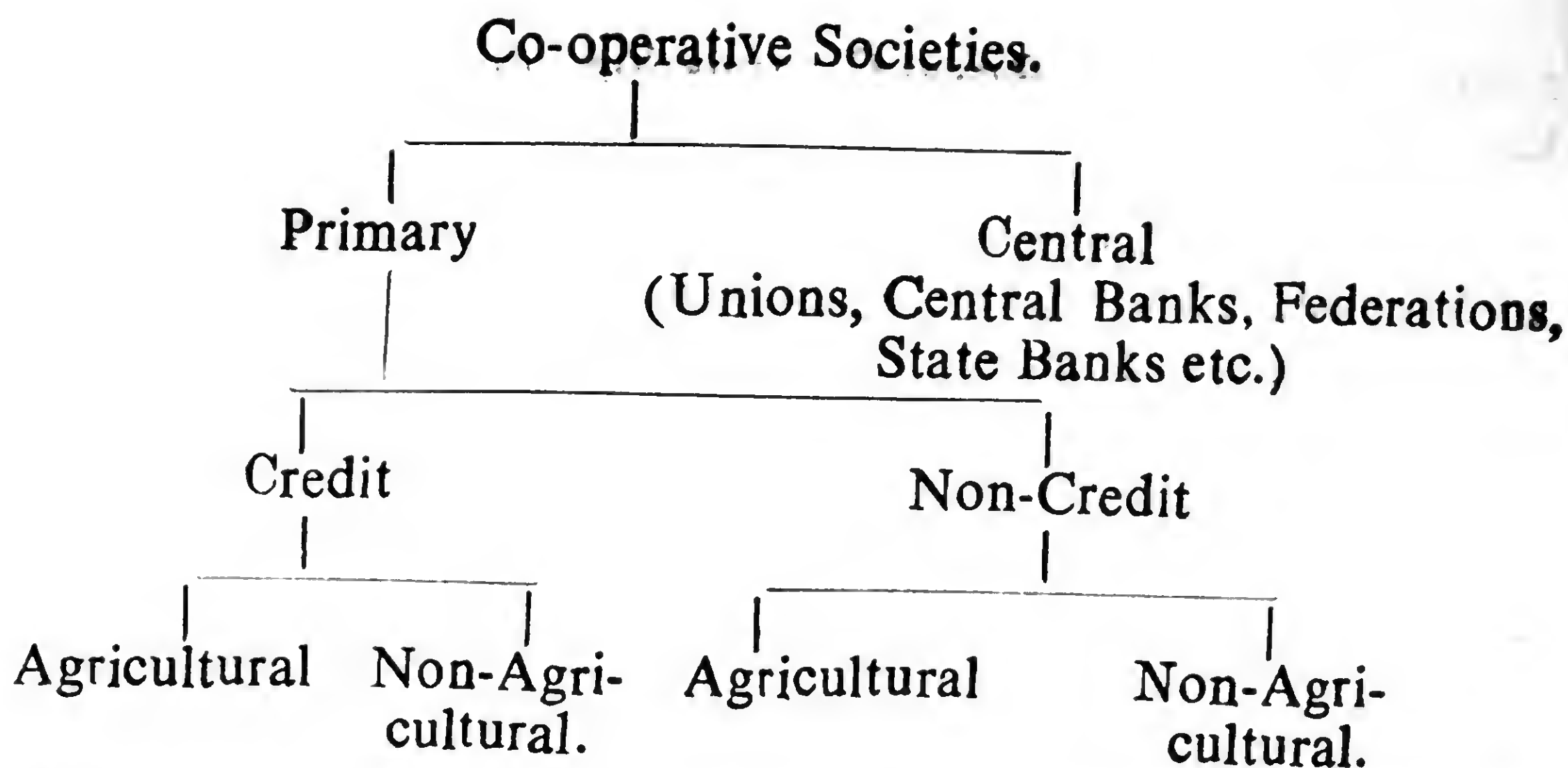
During the period of the war, the imposition of economic controls and food rationing led to the opening of many consumer's co-operative stores to supply foodstuffs and other commodities at fair prices. Co-operative marketing also made some progress particularly in respect of cane and cotton in U.P. and Bombay respectively. After the war, the return of normal conditions led to an abrupt decline in the consumers' co-operative movement, though the co-operative movement in general continues to make progress as much importance is being attached to this method of economic development.

### **Present Position of the Movement.**

The structure of the co-operative movement :—

The whole co-operative movement in India can be classified as given below :—





From the above classification, it is quite clear that the primary co-operative societies are the base of this movement. They are of two types, agricultural and non-agricultural according to the type of people who form these societies. Each of these groups is further divided into credit and non-credit societies. In this way, we come to have four different types of societies viz., (1) agricultural credit societies, (2) non-agricultural credit societies, (3) Agricultural non-credit societies and (4) non-agricultural non-credit societies.

Unions of co-operative societies formed by groups of primary societies supervise their working. Almost in each district or taluqa headquarter, there is a central co-operative bank to finance the primary societies. To meet the financial needs of these central banks, there is the State Co-operative Bank above these central banks.

The comparative importance of these various types of co-operative organisations will be clear from the under-mentioned statistics for the year 1955-56 :—

|   |          |
|---|----------|
| Total number of societies of all types        | 2,40,395 |
| Primary Agricultural Credit Societies         | 1,59,939 |
| Primary Non-agricultural Credit Societies     | 10,003   |
| Primary Agricultural Non-credit Societies     | 30,268   |
| Primary Non-agricultural Non-credit Societies | 27,745   |

The above figures show that the major emphasis of the co-operative movement so far has been on agriculture and that too on the provision of credit because the primary agricultural



societies are about 83% and agricultural societies about 67% of the total number. During the last ten years, other co-operative activities have been developed and the movement has spread into several walks of life. For example, it has helped in the rehabilitation of the displaced persons and in the Grow-More Food campaigns. The housing, industrial and farming societies have settled the displaced persons in colonies and provided them with useful employment. The movement has given an impetus to the Grow-More-Food Campaign by distribution of manures, chemical fertilizers and agricultural implements. A large number of multi-purpose societies have been established particularly in the states of Madras, Bombay, Mysore and Uttar Pradesh.

### State-wise Progress of the Movement.

The progress of the movement in the different States has not been to the same extent. About 45 p.c. of the primary agricultural credit societies happen to be in the three States of Bombay, Madras and U.P. The movement has made the greatest progress in the States of Madras and Bombay. About 58 p.c. of the villages were served by the rural credit societies in these States in 1950-51. Madras alone had 129 land mortgage banks out of a total number of 286. These two States have made considerable progress on the non-credit side also e.g., in regard to consumers' stores, housing, milk supply, weavers' co-operative societies etc.

In the other States viz., U P., M.P., Bihar, Orissa, Mysore, Kerala and Andhra, the movement has made some progress but not as much as in the States of Bombay and Madras. Before partition, Punjab had a fairly well-developed co-operative movement but in Bengal, it had not fully recovered from the bad effects of the depression of thirties. After partition, the movement was badly disrupted in both these States. In Assam also, the position is no better.

*Agricultural Co-operative Credit Societies.* In order to achieve the aims of co-operation, these societies are organised on democratic basis and the members are supposed to know each other. It is for this reason that the membership is between 10 and 100 of the same village. Each member has unlimited liability. Two important bodies of the society are (1) The General Committee formed by all the members of the society

and (2) A Managing Committee elected by the members of the General Committee. This body serves as the executive body of the society and conducts its day-to-day affairs with the approval of the General Committee. Members mostly render honorary service to the society. Sometimes a paid secretary may be appointed by the General Committee for day-to-day work of the society.

The working capital of the society consists of (a) entrance fee paid by the members at the time of admission, (b) the share capital subscribed by the members, (c) deposits from the members and non-members and (d) loans and deposits from other societies, central co-operative bank and the government. The society gives loans only to the members for such productive purposes as purchase of seeds, implements and making permanent improvement in the land. Only in exceptional cases, loans are granted for such unproductive expenditure as marriage, *shradh* expenses, and repayment of debts of *mahajan* in order to save the members from his clutches. The rate of interest charged is very low. Loans should be given against the personal security of the borrowers. But in practice, the surity of some other member or any other security as movable or immovable property is asked for. The loans are repaid in easy instalments.

Each society has to build up a reserve fund. Such societies which have no share capital, put in all the profits into the reserve fund. In case of societies with share capital, a minimum of 25 p.c. of profit is deposited into the reserve fund before the declaration of any dividend. With the permission of the Registrar, about 10 p.c. of the profits may be spent for charitable or common purposes. The officers deputed by the Registrar, audit the accounts of the society. The government has granted some special privileges to the co-operative societies such as exemption from stamp duty, registration fees or income tax. In regard to the repayment of loans, they are given priority over other creditors.

The agricultural credit societies form the backbone of the whole movement. In 1956, their total number was 1,59,939 with a membership of 78 lakhs and working capital of Rs. 79.10 crores. In 1955-56, they advanced loans of the amount of Rs. 49.62 crores. They form about 80 p.c. of the total primary agricultural societies and 67 p.c. of the total primary societies.



But about 25 p.c. of these societies are dormant and have not advanced any loans.

The average size and operations of these societies are very small as will be evident from the following figures :—

Share capital per society Rs. 1051, share capital per member Rs. 22, membership 49, deposits per society Rs. 441, deposits per member Rs. 9, working capital per society Rs. 4946, loans advanced per member Rs. 64.

During 1951-56, the overdues per society have increased from Rs. 552 to Rs. 935 because there is indifference to periodical recovery, lack of supervision, the loans taken for productive purposes are used for family expenditure. Most of the loans are given against the security of land.

“The primary credit society satisfies none of the requisites of either good co-operation or sound credit. Its failure to promote thrift and saving is followed at not too great a distance by its failure to provide in the village a system of credit which is at once adequate, prompt and productive. It is the weakest link in the chain of co-operative credit”. (All-India Rural Credit Survey Report p. 288).

### **Non-agricultural Credit Societies.**

In contrast to the agricultural societies, these societies have a large membership, limited liability, paid management and pay high dividends to their members. They are mostly in the urban areas and have share capital. They cater to the needs of all types of middle class people. Their most important example is that of urban banks. These banks follow modern methods of banking and accept deposits from the public. In the states of Bombay, Madras, Mysore, West Bengal and Hyderabad, these banks have shown good progress. They are inculcating habits of thrift among people of small means and provide them loans at low rates of interest.

In Bombay, Madras and Punjab, there are thrift societies. They collect savings every month and invest them usefully. The salaried people in large firms and Government departments have made such societies. Through them, they are able to make regular savings and get loans on low interest to meet sudden expenses or for building houses etc. Such societies have made satisfactory progress because they are run efficiently. They are under the management of educated people. Loans are ad-



vanced within the repaying capacity of the borrowers. Loans are paid back regularly and very often deductions are made from the monthly salary of the indebted persons. In Bombay and Calcutta, there are factory workers' societies. They provide credit to their members and run shops to supply foodstuffs and other requirements. There are fishermen's societies. Others cater to the needs of carpenters, motor drivers, street hawkers and other persons of small means.

In 1956, the number of such societies was 10,003 with 30.72 lakh members and Rs. 85.74 crores as working capital. The two States of Bombay and Madras account for 54 p.c. of their total membership and for 63 p.c. of the loans advanced in 1955-56. During the period of the last war, they made a greater progress and their loans and deposits were doubled. They have been more successful because they are run generally by educated and efficient persons who have regular incomes and whose needs for credit are not as frequent as that of the cultivator. Their deposits tend to increase more than their loans.

### **Agricultural Non-credit Societies.**

During the depression when credit societies were declining, the importance of non-credit societies was realized to tackle other problems of the farmers. Before also, some societies of this type existed. For example, there were societies for consolidation of holdings, supply of implements, machinery, manures, seeds of good quality. In Bombay, there were a few societies for insurance, breeding of cattle, land improvement and irrigation.

The great depression worsened the condition of the farmer. Then it was realized that the provision of cheap credit alone would not solve the problem. Since then, societies of various types have been organised. Now, there are co-operative purchase and sale societies, co-operative production and sale societies, co-operative irrigation societies, cattle insurance societies, co-operative consolidation of holdings societies, co-operative farming societies and co-operative better living societies etc. Among these non-credit societies, the most important group is that of co-operative marketing societies. Generally, they specialise in the sale of a single commodity produced by the members. For example, there are fruit growers' societies and cotton sales societies in Bombay, sugarcane sale societies in U.P. and Bihar.



In 1956, there were 30,268 agricultural non-credit societies with a working capital of Rs. 28.41 crores and about 24 lakh members. They are only 19.4 per cent of the total agricultural societies. The co-operative marketing societies and the grain banks are the most important among them. The grow-more food campaign has given a further impetus to all these agricultural non-credit societies.

### **Non-agricultural Non-credit Societies.**

These societies are of several types viz., co-operative consumer's stores, co-operative housing societies, co-operative production societies etc.

1. *Consumer's Co-operative Stores.*—They are organised for the purchase and retail sale of the consumers' goods among the members. The shares of these societies are purchased by the members who are supplied with pure consumers goods at fair prices and the profits are divided among them in proportion to their purchases at the end of the year. This movement has made great progress in Great Britain and in India it has made some progress only in the States of Madras, Bombay and Assam. In Madras, it has spread even into the rural areas. In that state, there are some wholesale stores also. There are a number of school and college students' stores.

During the last world war, a number of consumers' stores were set up on account of rationing of foodgrains and price controls of various essential commodities. As private traders indulged in hoarding, black-marketing and profiteering, the Government readily recognised the co-operative stores and granted them licences and quotas for the sale and distribution of sugar, charcoal and cloth etc., because they were better distributive agencies. Thus rationing and control gave them some sort of impetus. After the war, controls and rationing restrictions were removed and the co-operative stores had to face competition from the private traders. Some of them had to be closed down.

Consumers' stores have also been organised for the employees of railways, municipal boards and some industrial undertakings. In 1955-56, the total number of such stores was only 80,077 with 16 lakh members.

2. *Co-operative Housing Societies.*—Even before the last war, a large number of factory labourers and poor people used to live in slums. During the war period, the house building activities remained suspended while the population of the cities continued to increase at a fast rate. It resulted in congestion and an acute shortage of housing. In the post-war period, the housing societies were begun to be organised in several States at a fast speed. These societies are being organised in big cities generally by the people of upper middle class who can afford to build a house. The Government also helps them by giving loans, providing lands at reasonable prices, and materials at controlled rates and by supplying water and electricity facilities. Their members get loans on easy terms to enable them to build their houses.

In Madras, the number of such societies increased from 122 in 1939-40 to 280 in 1949-50. In Bombay, the number shot up from 99 to 769 during the same period. During the years 1948-50, in West Bengal and Mysore their number has increased from 49 and 37 to 103 and 93 respectively. In Madras, 79 houses were constructed by these societies in 1947-48 and 751 in 1949-50. In Bombay, the number of buildings constructed increased from 158 in 1947-48 to 329 in 1949-50. These societies are faced with the difficulty of lack of funds. In several States, they are being helped by the government through the grant of loans.

*Producers' Societies.*—The organisation of such societies has not been much successful in the large scale industries. But they can be of great help to the cottage and small scale industries in several ways *e.g.*, purchasing of tools and raw materials for the members at wholesale prices, arranging for the sale of their products at reasonable prices, providing them information about the tastes and requirements of the customers and co-ordinating the activities and knowledge of the artisans.

A large number of such societies have been formed in the handloom industry. In Madras, there is the largest number of weavers' societies *viz.*, 941 societies with 1,49,393 members and 1,34,653 loans. The next is West Bengal with 939 societies with 63,186 members. The State of U. P. has 569 societies and Bombay 354 societies. In Madras, there has been formed an apex organisation *viz.*, the Madras Handloom Weavers' Provincial Co-operative Society with a working capital of Rs. 63.77



lakhs. This society owns six collective weaving centres, five handloom factories, one printing factory and seven dye factories. Other important functions of this society are distribution of yarn to the primary societies and marketing of their cloth.

Societies of this type have also been organised for other small scale industries. In Bombay, the number of such societies is 538 with a total working capital of Rs. 67·05 lakhs and with an annual sale of Rs. 57·92 lakhs. These societies have been formed for the benefit of tanning and leather workers, forest labourers, oilmen, rope-makers, and bamboo workers. In the State of Madras, they have been formed for metal workers, leather workers, potters and rope-makers. With the help of these societies, our small-scale industries are likely to develop on modern lines owing to the supply of adequate financial help, proper implements and trained workers.

*Co-operative Insurance.* Co-operative Insurance Societies undertake insurance business of every type. In 1949-50, there were 5 life insurance societies, one fire and general insurance society and one motor insurance society in Bombay. In West Bengal, there were 10 life insurance societies. For the employees of the Union and State Governments, there is the Indian Postal and Co-operative Insurance Society Ltd.

*Non-credit Co-operatives of other types.* In order to improve the living conditions of agricultural and industrial workers, co-operative workshops, transport societies, forest workers societies and labour contract societies have been formed. The labour contract societies help their members to secure employment. Women's societies have been organised for promoting thrift and handicrafts such as hosiery, knitting, printing of cloth, making of garments etc. Better living societies have been formed in villages to improve sanitation and organise free schools, medical aid and public health societies for the management of dispensaries and selling medicines to the poor at concession rates and educational societies for the spreading of education. Co-operative societies are also helping in the rehabilitation of displaced persons and ex-servicemen.

### **Higher Financing and Supervising Agencies.**

*Unions.* They are formed by uniting a number of primary societies and are managed by their representatives. The guaran-



teeing unions guarantee the loans taken by member societies from the Central Co-operative Banks. Supervising unions inspect the accounts of the societies and offer them guidance. Banking unions perform both the functions.

*Central Co-operative Banks.* They are mostly in the district headquarters, and are formed either by the primary societies only or by both, primary societies and individuals. Most of them are of the mixed type as they are able to attract more funds and secure the help of experienced businessmen.

Their main function is to provide loans to the primary societies and they also help them in investing their surplus funds. Sometimes, they lend out these funds to other primary societies needing financial help. In this way, the Central Banks help in adjusting the surplus and deficiencies of the primary societies and enable them to utilize their funds in the best possible way. They also undertake ordinary banking business *e.g.*, accepting of deposits from the public, remittances of funds, collection of bills, cheques and hundis etc. Some of them grant loans to individuals. Others undertake various types of non-credit functions such as procurement and distribution of foodgrains, fertilizers, iron and steel, and retail distribution of foodstuffs, sugar, cloth, kerosene oil etc.

In 1955-56, the number of the Central Co-operatives was 478, with a membership of 3 lakhs and working capital of Rs. 92.67 crores. Out of the total loans granted by them, 12 p. c. were to individuals and 88 p. c. to banks and societies.

The Reserve Bank of India makes several suggestions in its report for the improvement and better organisation of Central Co-operative Banks. Their share capital is only 7.1 p.c. of the total working capital and their reserve funds are also very meagre. They should therefore try to increase the amount of the share capital and strengthen their reserve funds. They should deposit one-third of their profit into the reserve fund till the latter becomes equal to the paid-up capital. They should try to attract more deposits particularly from the rural areas. They should charge a lower rate of interest and should decrease their commercial banking activities. Bad and doubtful debts should be properly assessed by them.



### **State Co-operative Banks.**

They are at the apex of the co-operative credit organisation in a State and are located in the capital of each State. In some States, their membership is constituted by both, the co-operative societies and the private individuals and in others, it is constituted by co-operative institutions. They perform the same functions for the central banks as the latter for primary societies. They help in the adjustment and balancing of the surpluses and deficiencies of the central banks. They accept the surplus funds from some and lend them out to those which may be having a shortage of funds. They borrow from the State Governments, Reserve Bank of India and the State Bank of India etc. It is through these banks that the funds of the Reserve Bank become available for agricultural purposes. Besides, these banks also perform ordinary banking functions such as accepting of deposits and collection of bills etc., and they invest their surplus funds in trade and commerce. Some of these State Co-operative Banks are very big and others are smaller even than the central co-operatives. Most of them are in a sound financial position. Their deposits have much increased during the last 10 years and the co-operative societies are not able to absorb all these funds. Therefore, surplus funds have been invested in Government Securities or in trade etc.

In 1956, there were 24 State Co-operative Banks, practically one in each State. Their total working capital was Rs. 63.34 crores. Their total advances amounted to Rs. 67.86 crores. Out of this, 15 p.c. were to individuals and 85% to banks and societies. Their total investments amounted to Rs. 18.39 crores. Indian State Co-operative Banks Association has been organised to co-ordinate their activities.

The Reserve Bank has suggested in its Rural Credit Survey Report that very few individuals should be admitted to the membership of these banks and it should be open to central banks and other co-operative credit institutions having direct dealings with them. They should give first preference in their loans to agricultural credit. They should not give long term loans out of their short term resources.

### **Land Mortgage Banks.**

In order to introduce permanent improvements in the land or to repay their past debts, the agriculturists require loans for

long periods. Such long-term loans are given by Land Mortgage Banks on the security of lands mortgaged to them. These banks are organised either on fully co-operative basis or quasi-co-operative basis. In our country, they are mostly quasi-co-operative type. Through this form, they can attract more funds and better business talent. These banks have a limited liability. They have to take trained officials from the government to enquire into the title and value of the land offered for security. They have to raise long term funds through public deposits and sale of shares and debentures and also from the Reserve Bank and the Central and State Governments.

Though such banks were first started in Punjab in 1920 but they have been most successful in Madras. In Bombay, there is the Provincial Land Mortgage Bank to co-ordinate the activities of the primary banks. The cultivators take loans from them for the payment of their past debts in order to save themselves from the high rate of interest of the money-lender. Before the war, quite a large number of debts were paid because the money-lenders were prepared to accept reduced payments. But since the war, there is not so much demand for funds. The Reserve Bank has suggested that they should give loans for the improvement of land and agriculture.

Land mortgage banks have not made much progress in India. Except Madras, they do not seem to have made much headway. In June 1956, there were 302 primary land mortgage banks distributed over 12 States of our country and nearly 70 per cent of these banks were in the States of Madras, Andhra and Mysore. Their total loans amounted to Rs. 1.74 crores.

There has not been much development of long term credit except in the above three States of South India. The land mortgage banks lend for repayment of debts and not for production. They also find it difficult to raise long term funds for their operations. They should be provided more financial help by the government so that these banks may be able to finance schemes of agricultural development such as bunding, digging of wells, acquisition of pumps and agricultural machinery. They should have properly trained staff to ensure that loans given by them, are being used for productive purposes. They should not have a rigid period of repayment. The



Reserve Bank and the State Bank should also help them in the financial side.

*Reserve Bank and the Co-operative Movement.* The Reserve Bank has set up the Agricultural Credit Department. This department of the bank helps agricultural credit by giving expert advice to the government and co-operative banks and directs the activities of the bank in regard to State Co-operative Banks and agricultural credit. The Bank gives loans to co-operative institutions at concessional rates. The State Co-operative Banks are enabled to make fuller use of its credit facilities. They are also given remittance facilities at reduced rates. The Reserve Bank is also helping them in the training of co-operative personnel. In spite of these facilities, the co-operative movement has not received sufficient help from the Reserve Bank because of its own defective operations and its reluctance to increase these operations. The Reserve Bank has now formulated a scheme of integrated rural credit and re-organisation of the co-operative movement on the basis of the report of the All India Rural Credit Survey.

### **Main Trends of the Co-operative Movement.**

1. On the whole the movement has made progress though the number of the societies had decreased as a result of the partition. Since then, their number, membership and working capital has increased.

2. The non-agricultural societies have shown greater progress and their ratio has increased from 12·8 p.c. in 1938-39 to 20·9 p. c. in 1954-55.

3. The proportion of the non-credit societies is also increasing and has gone up from 10·92 p. c. to 24·8 p.c. during the period 1949 and 1954. Thus increasing importance is being attached to the productive and distributive aspects of the movement.

4. The number of multi-purpose societies is increasing at a faster rate. Before the war, separate societies were formed for different purposes. But during the period, 1947-50, the multi-purpose societies increased from 18162 to 29525 and their working capital has increased from Rs. 2·7 crores to Rs. 7·5 crores.

5. Full utilization is being made of all available resources. Financial deficiencies and surpluses are being adjusted by the Central and State banks and no funds are left idle.

### **Multi-Purpose Societies.**

Before the war, when co-operative societies were organised for a single purpose such as supply of credit, sale of produce, irrigation etc., the Reserve Bank pointed out that multi-purpose societies would prove more helpful to the cultivators. A multi-purpose society will grant loans, buy seeds, manure and implements for the members, sell their produce and help them to consolidate their holdings and irrigate their lands. There is a paucity of trained persons to run the separate societies but the multi-purpose societies require lesser number of such trained persons. By combining the various functions under one society, the efficiency of co-operative organisation is increased. Moreover, a multi-purpose society is able to have an all-sided picture of the farmer's life and therefore it is able to satisfy all their needs better. But the credit societies are able to provide only a little of financial help to the cultivators and for so many other things, the latter have to depend upon the village money-lender. For bringing about an all-round improvement in the villagers' life, the co-operative organisations should embrace their whole life and only the multi-purpose societies can do it.

On the other hand, some people think that the multi-purpose societies would be difficult to organise and the ordinary villagers cannot do it. Also, a multi-purpose society will have to be organised on a big scale or in a big area in order to be efficient in its operation. Moreover, the failure of such a society in one side would involve the whole organisation and would mean a heavy loss. On the whole, the multi-purpose societies are much more useful and their number is increasing in the different states and is as follows :—U. P.—22786, Bombay—2161, West Bengal—1641.

*Achievements of the Co-operative Movement.* 1. This movement has helped in the liquidation of a major part of the rural indebtedness. The rate of interest has been lowered and the villagers are able to get loans at a reasonable rate of interest. It has resulted in a saving of crores of rupees to the agriculturists. The money-lender no longer has a dominant position or monopoly.



2. Agriculture, the most important industry of India is being improved through consolidation of holdings, better marketing of agricultural produce and supply of better seeds, cheap manures and better implements. With the help of multi-purpose societies, agriculture is becoming a profitable occupation.

3. It has led to the development of considerable banking facilities in the rural area. It is inculcating the habit of thrift among the villagers and has helped to mobilize their small savings.

4. As these societies give loans in a restricted way for productive purposes only the borrowing for consumption purposes or for wasteful social ceremonies is being discouraged.

5. Consumers' co-operative stores render great help to poor people through sale of essential goods at fair prices. During the war, they rendered very great service by selling essential goods at controlled prices. Even men of ordinary means have been able to build houses for themselves through the help of these societies.

6. Besides, this movement has conferred immense social and moral benefits upon the people. It is helping to mitigate the evils of drunkenness, gambling, extravagance and litigation. It also helps in the building of public utility works such as wells, panchayatghars, roads and drains. Education and medical aid are being made available to poor people and men of ordinary means. People under its influence, are developing habits of industry, self-reliance and straight forwardness.

### **Its Shortcomings.**

(1) This movement has so far touched only the fringe of the problem. The benefits mentioned above, have accrued to a very small section of people. Large sections of agricultural population remain outside its orbit. Total amount of fresh advances made by the credit societies amounted to only Rs. 17.98 crores which is only a small part of the total requirements of the agriculturists.

(2) The credit societies have a number of defects in their working. According to the audit reports, most of the societies

in the various States belong to the C class and very few to the A and B classes for these reasons. These societies often grant loans in an indiscreet manner or on the basis of friendship and favouritism. Loans are not paid back punctually. In some cases, fictitious repayments have been recorded. Bad debts and overdue loans are quite large in number. Very few members take a genuine interest in the working of these societies. There is also the lack of properly trained and experienced persons to look after the working of the co-operative societies. Illiteracy and economic backwardness have also stood in the way of the development of these societies.

3. These societies have also failed in their main aim of mobilising savings of a large section of people. Owing to lack of funds, they have to depend on outside sources for funds.

4. The basic principle of co-operation is that the movement is initiated and organised by the people themselves and it is not imposed upon them. But in India, it was started by the government and it is still very much under its control. People consider it as a government's agency and not as their own organisation.

Moreover, too much emphasis is being laid on its hurried expansion rather than on intensive development. The number of societies has increased at the cost of quality.

5. The co-operative movement has so far laid the main emphasis on the provision of credit and has not been able to improve the agriculture as a whole. It has not been able to do much to remove the causes of poverty of cultivators. So the root cause of the problem remains untackled.

6. The co-operative societies of various types have to face a very stiff competition from powerful money-lenders and traders who have some sort of a monopoly over the economic life of the village. In some cases, these unscrupulous people have entered the co-operatives and are utilising them to their own advantage.

### **Suggestions for the Re-organisation and Improvement of the Co-operative Movement.**

In order to improve the condition of our rural areas and of agriculture in particular, there is an urgent need for a



balanced and well-ordered development of the co-operative movement.

*Re-organisation of the Primary Societies.*—The scheme of one society for each village has not been successful. The primary societies should be of a large size covering a group of villages with a fairly large membership and reasonably adequate capital. Such big societies can be formed by the amalgamation of the existing small societies. So that each society may have a membership of 500, a minimum share capital of Rs. 15,000 and an annual business of Rs. 1·5 lakhs. Its membership should be open to everybody residing in the area, with a limited liability. The borrowing limit of these societies should be fixed. Loans should be given on the basis of crops, as far as possible in kind and on the condition of the crop being sold through the marketing society. The societies may also supply seeds, fertilizers, agricultural implements and standardised consumers goods such as sugar, kerosene etc. Recovery of the loan should be made from the proceeds of the crop.

*Co-operative Marketing*—It should be integrated with co-operative credit. The primary marketing societies should be established at important *mandis* or at *taluka* centres. The government should make a direct contribution to their share capital and provide them with trained personnel. In addition to the marketing of produce of its members, these societies may take up processing, pooling and grading. These societies may lead to the formation of District Marketing Societies at the district level. The latter may be federated into State Co-operative Marketing Societies at the state level. The state marketing societies will also see to the construction of godowns and ware-houses etc., and distribution of basic consumption articles.

### State Participation.

The State has to play an important part in the re-organisation of the higher co-operative institutions such as Central Co-operative Banks and State Co-operative Banks. At the apex level, the state should be the major partner in the case of both *viz.* State Co-operative Banks and State Marketing Societies and should contribute directly to their share capital. Through these, the State should participate in the management of Central Banks at the

district level. The State should contribute not less than 51 p. c. of the share capital at the apex and district levels. In short, the State partnership has to be in the various sectors of the co-operative movement viz , (a) rural credit, (b) processing and marketing of agricultural produce on a co-operative basis, (c) development of storage and ware-housing, (d) farming, irrigation, provision of seeds and manure, transport, fisheries, milk supply, dairying, livestock-breeding and cottage industries organised on co-operative basis.

The National Co-operative Development and Ware-housing Board will help in the construction of godowns and warehouses through the All India and State Ware-housing Corporations. Training of the personnel at the various levels should be emphasised through an All-India Institute and regional institutes.

The Reserve Bank should also pay an important part by setting up a National Agricultural Credit Fund to grant long-term loans to the State governments so that the latter may be able to subscribe to the share capital of the co-operative institutions. It should create another similar fund for granting medium-term loans to the State Co-operative Banks etc.

All these suggestions have been made by the Rural Credit Survey Committee for the reorganisation of the co-operative movement. Some of them such as increased state participation, larger size of societies and paid service, cut across some of the main principles of the co-operative movement. But the shares of the government are to be withdrawn soon after the share-capital of each society would have reached the optimum level fixed for it. Other suggestions also should be given a fair trial and they are likely to prove quite useful.

### **Growth of Co-operatives in the two Plans.**

The First Plan attached a very great importance to the part of co-operative organisation in various fields of development and particularly in the rural economy. Greater use is to be made of the co-operative methods in farming, marketing of produce, running of cottage and small scale industries etc.

In fact, the aim is to have co-operative village management so that the land and other resources of the village are developed by the village community as a whole. A provision of Rs. 50 lakhs was made for training in co-operation and experimentation in its various forms.



In the Second Plan, the targets for the various co-operative organisations are as follows :—

*Credit.*

|                                 |                 |
|---------------------------------|-----------------|
| Number of large-sized societies | 10,400          |
| Short-term credit               | Rs. 150 crores. |
| Medium-term credit              | Rs. 50 crores.  |
| Long-term credit                | Rs. 25 crores.  |

*Marketing and Processing.*

|   |      |
|---|------|
| Primary marketing societies             | 1800 |
| Co-operative sugar factories            | 35   |
| Co-operative cotton gins                | 48   |
| Other co-operative processing societies | 118  |

*Warehouses and Storage.*

|  |      |
|--|------|
| Warehouses of Central and State Corporations | 350  |
| Godowns of marketing societies               | 1500 |
| Godowns of large-sized societies             | 4000 |

It is expected that the membership of the co-operative credit societies will increase from 60 lakhs to about 150 lakhs. The above mentioned targets would be achieved through existing and new societies. In this Plan, a provision of Rs. 27·57 crores has been made for the development of co-operative organisations. Land and agricultural reforms in the rural areas are preparing ground for the growth of co-operatives. Within the next decade, a fairly large part of agriculture might be done on co-operative basis. Industrial co-operatives are also growing in the rural areas. Supply and marketing co-operatives are helping the small-scale industries and handicrafts to grow. Schemes for labour, construction and housing co-operatives have been formulated. Thus the method of co-operation is being extended to the various fields of development.

On the occasion of the third Indian Co-operative Congress, the Prime Minister was somewhat critical of the increasing partnership of the state in the co-operative movement and the organising of the large co-operative societies. But the experience has shown that without State help and association, this movement was declining. Under the circumstances, the greater State participation was called for. But the Third Indian Co-operative Congress recommended to the government that the increased State participation should not deteriorate into day-

to-day interference in the administration of the co-operatives. The government was also advised to stop the practice of placing officials at the head of apex and district banks and other co-operative organisations so that there may be elected presidents.

### Questions and Projects.

1. Explain the meaning and purposes of co-operation.
2. Trace the growth of the co-operative movement in India.
3. Describe the structure of the co-operative organisation in the country.
4. What are the main features and different forms of Co-operative Societies in India ?
5. Prepare a chart showing statewise progress and present position of the movement.
6. Describe the organisation and functions of the Primary Co-operative Credit Societies.
7. Explain the causes of the backwardness of the non-credit societies. What is their present position ?
8. Prepare a brochure on the various types of non-agricultural non-credit societies such as Consumers' Co-operative Stores, Co-operative Housing Societies, Producers Societies, Co-operative Insurance etc. You should give all about the activities of each and benefits to the members. If any one of these is playing more important part, it should be emphasised.
9. What are the various higher financing and supervising co-operatives ? How are they helping in the progress and development of the co-operative movement in India ?
10. What are land mortgage banks ? To what extent have they helped in the liquidation of rural indebtedness ?
11. To what extent is a multi-purpose society better than a singles-purpose society ? Describe the growth of this type of societies in India ?
12. Describe the achievements and failures of the co-operative organisations in India ?



13. What suggestions have been made to improve the co-operative organisations in India ?

14. What provisions have been made for the development of co-operative organisations in the two Five-Year Plans ?

15. Prepare a pamphlet about the organisation and progress of co-operatives in your district with reference to (a) agricultural credit, (b) rural industries, (c) agricultural marketing and (d) consumers' co-operatives. In order to find out its genuine progress and help given to the masses, you should contact the various classes of people in the rural and urban parts of your district.

16. How did the co-operative organisations receive a stimulus during the last world war ?

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## CHAPTER X. The First Five-Year Plan.

### Importance of Planning.

The essence of planning is the systematic use of the scarce resources of a country. Planning leads to a pooling together of all human and material resources of a country for being exploited and utilized in the best possible manner. In the absence of planning, there may be over-production of certain types of goods and under-production of others or some of the resources may remain idle and unexploited. It may also lead to much inequalities in income and wealth or to extremes of poverty and wealthiness. It may also result in trade cycles with alternating phases of booms and depressions. On the other hand, the aim of planning is to increase production by making a proper use of the various types of resources of the country. It leads to better distribution of investment and balanced production of the various types of goods. It aims at a systematic and balanced development of the productive resources of a country in order to raise the national income. It is meant to reduce the inequalities of income, wealth and opportunity to the minimum level. In short, planning is expected to lead to maximum production, full employment, attainment of economic equality and social justice.

India has become poor because her large resources have not been developed properly. The incomes of the people are low and the standard of living has gone down. The need for economic planning has been felt in our country for quite a long time. For the first time in 1938, the National Planning Committee was set up for framing an economic plan. But this committee could not continue work for long. Later on, the Bombay Plan was drawn up by some big industrialists of the country. After this came the People's Plan of the late M. N. Roy and Gandhian Plan of Shri S. N. Aggarwal. But nothing much came out of these earlier attempts. It was only after the independence of the country, the National Government took it up



seriously. In 1950, the Planning Commission was appointed and it prepared the draft of the First Five-year Plan in 1951.

### The First Five-Year Plan.

*Its Main Aims and Features.*—The object of this Plan was to raise the standard of the people, and to make their life rich. “The Plan primarily aimed at increased productivity and reduction of inequalities. A mixed economy based on welfare ideals was envisaged by the Planning Commission”. Public and private sector should function side by side as integral parts in such a mixed economy. In fact, the State is responsible for overall economic development of the country and is playing the role of a senior partner.

The Plan was to cover the period 1951-56. The Planning Commission submitted the draft plan in July, 1951. In this, it was divided into two parts. But final plan which came out in December, 1952, was an integrated one and it provided for a larger sum of outlay. It was to involve an outlay of Rs. 2069 crores by the public authorities. The total outlay was divided on different sectors as follows :—

#### *Distribution of Outlay.*

|   | (Rs. crores) | Per cent of the total. |
|---|--------------|------------------------|
| Agricultural and Community Development      | 361          | 17.5                   |
| Irrigation                                  | 168          | 8.1                    |
| Multi-purpose Irrigation and Power Projects | 266          | 12.9                   |
| Power                                       | 127          | 6.1                    |
| Transport and Communication                 | 497          | 24.0                   |
| Industry                                    | 173          | 8.4                    |
| Social Services                             | 340          | 16.4                   |
| Rehabilitation                              | 85           | 4.1                    |
| Others                                      | 52           | 2.5                    |
|   | <hr/> 2,069  | <hr/> 100.0            |

The above table indicates that agriculture with irrigation and power were given the topmost importance. Generation of electric power which is mostly connected with major irrigation

projects, had also a high priority, because all industrial expansion and rural development can take place only with the help of electric energy. The transport were also allotted a very big share because railways which is the biggest nationalised enterprise were to be further expanded to meet the needs of industrial and agricultural growth. The system of roads was to be further developed throughout the country to connect as many villages as possible with the nearest towns. The State was also to see to the development of shipping and aviation. The allotment for the industries was comparatively smaller because industrial expansion was left to the private initiative. A big outlay was provided for social services to meet the crying needs of the country in the spheres of education, sanitation and medical help. Even this outlay was too meagre for the stupendous task of community development programme and it was meant to be supplemented with community effort on a large scale.

As indicated in the above table, nearly 60 per cent of the total outlay was to be used for the creation of productive capital under the ownership of the government in the fields of irrigation, power, transport, communication and industry. The remaining 40 per cent was to be used for providing administrative and advisory services, for adding to the productive equipment or working capital in the private sector and also for helping in the maintenance and expansion of social services.

#### **Targets of production in the various sectors.**

|  | 1950-51 | 1955-56 |
|--|---------|---------|
| <b>I. Agriculture.</b>                                   |         |         |
| Foodgrains (million tons)                                | 52.7    | 61.6    |
| Cotton (lakh bales)                                      | 29.7    | 42.2    |
| Jute „   | 33.0    | 53.9    |
| Sugarcane (million tons)                                 | 5.6     | 6.3     |
| <b>II. Irrigation and Power.</b>                         |         |         |
| Irrigation (million acres)                               | 50.0    | 69.7    |
| Electrical energy (installed capacity in million K.W.S.) | 2.3     | 3.5     |
| <b>III. Industry.</b>                                    |         |         |
| Pig iron available for foundries (lakh tons)             | 3.5     | 6.6     |
| Finished Steel (lakh tons)                               | 9.8     | 13.7    |
| Cement „   | 26.9    | 48.0    |



|                                   | 1950-51 | 1955-56 |
|-----------------------------------|---------|---------|
| Cotton yarn (million lbs)         | 1179    | 1640    |
| Mill cloth (million yards)        | 3718    | 4700    |
| Handloom cloth (million yards)    | 816     | 1700    |
| Jute manufactures (thousand tons) | 892     | 1200    |
| Bicycles (thousands)              | 101·0   | 530·0   |
| Power alcohol (million gallons)   | 4·7     | 18·0    |

#### IV. *Transport.*

|                            |       |       |
|----------------------------|-------|-------|
| Shipping (tonnage)         |       |       |
| Coastal (G R.T. thousands) | 211·0 | 315·0 |
| Overseas     ,,     ,,     | 173·5 | 287·0 |

#### Roads :—

|                                    |      |      |
|------------------------------------|------|------|
| National Highways (thousand miles) | 11·9 | 12·5 |
| State Roads             ,,     ,,  | 17·6 | 20·6 |

Besides the above, the number of primary schools, secondary, basic and industrial schools, other technical and vocational schools, hospitals and dispensaries, Panchayats and Co-operative societies was also to be increased.

With a view to control the further growth of population, different systems of family planning were to be experimented upon.

I. *Agricultural Programme.* As agriculture was given the highest priority in the Plan, therefore, Rs. 1,018 crores *i.e.*, 43·2 per cent of the total outlay, was assigned to agriculture, community development, multipurpose irrigation and power projects. This was done in order to increase the agricultural production so that the country might become at least self-sufficient in respect of food and raw materials. It is also necessary for the rapid industrialisation of the country. "Growing economy, bent on rapid industrialisation, always requires an expanded and re-organised agricultural sector for supplying it with an increased flow of food and raw material".

The Plan had also laid down a definite land policy. Zamindari and all other intermediaries were to be abolished so that the land would be left in the hands of the actual cultivators. A upper limit on the amount of land which an individual could hold, was to be fixed. Forming of co-operative farms was to be encouraged. Every State was to go ahead with the programme of consolidation of holdings and fixing of a limit below which sub-division of land was not to be per-

mitted. There were also schemes for construction of minor and major irrigation works and reclamation and intensive farming of land. Much stress is being laid on the method of Co-operative village management, Community Development Projects and Rural Extension Schemes to bring about an all round improvement in the economic, social and educational spheres of rural life. The Plan also provided for reform in agricultural credit, better marketing organisation for crops, improved system of animal husbandry, dairying and horticulture, afforestation, soil conservation and development of fisheries. The implementation of all these schemes was expected to increase the production of food-grains by about 14 p. c. and fairly good increase in the production of commercial crops.

The Plan had given so much importance to agriculture because this is the main occupation of the people of this country. The economic organisation of the country is mostly based on agriculture. Hence this important base must be improved and strengthened. A substantial increase in the production of food-grains was also necessary for an effective operation of the Plan. "Foodgrains occupy a pivotal place in the price structure because if their prices rise, this leads directly to rise in the cost of living and in production costs all round". Against this, some people think that the Indian economy is already ill-balanced with excessive predominance of agriculture and the Plan should have aimed at a well-balanced economy by giving more importance to industries. But the Plan gave high priority to agriculture so that it may pave way for the development of other sectors. For example, the multi-purpose projects were to benefit not only agriculture but also industry and the increased production of raw materials was to be of great advantage to our industries.

*II. Industrial Programme.* The outlay for the medium and large scale industries was Rs. 148 crores (*i.e.*, 6.3 per cent of the total outlay). It was Rs. 30 crores or 1.3 per cent of the total outlay for village and small industries. The total provision for all types of industries was Rs. 179 crores. In the private sector, a sum of Rs. 233 crores were to be spent on the development of industries. Another Rs. 150 crores was to be spent on replacement and modernization of plant and machinery. The order of priorities for the development of industries



was as follows :—Highest priority was for the expansion of capital and producers goods industries such as iron and steel, aluminium, cement, fertilizers, heavy chemicals, machine tools etc. Second place for the major consumption industries such as cotton textiles, sugar, soap, vanaspati, paints and varnishes etc. Next in importance was the erection of new plants with a view to strengthen the industrial structure. Last place was for the completion of those industrial units on which a part of capital expenditure had been incurred.

In the public sector, the major industrial project was the erection of a new iron and steel plant. Also, the Plan also provided for the completion of Chittaranjan Locomotive Factory in Bihar and the machine tool factory in Mysore. There was also provision for the expansion of Sindri Fertilizer Factory and the Vishakapatnam Shipping Yard. In the private sector, 80 p. c. of the amount was to be spent on capital goods and producer goods industries like iron and steel, petroleum refineries, cement, aluminium, fertilisers, heavy chemicals and power alcohol etc.

In the sphere of industries, greater importance was attached to private enterprise. The Planning Commission had drawn up a programme for the development of 42 industries in this sector. We give below the expected increase in production in some of the important industries :—

| <i>Industry</i>       | <i>Increase in Production</i> |          |       |
|-----------------------|-------------------------------|----------|-------|
| Cloth                 | 1872                          | mil.     | yards |
| Sugar                 | 384                           | thousand | tons. |
| Salt                  | 429                           | ”        | ”     |
| Paper and Paper Board | 86                            | ”        | ”     |
| Vegetable Oils        | 182                           | ”        | ”     |
| Iron and Steel        | 310                           | ”        | ”     |
| Pig Iron              | 394                           | ”        | ”     |
| Finished Steel        | 2108                          | ”        | ”     |
| Cement                | 83                            | ”        | ”     |
| Aluminium             | 156                           | ”        | ”     |
| Heavy Chemicals       | 150                           | ”        | ”     |
| Locomotives           | ( + 50 boilers)               |          |       |
| Diesel Engines        | 4,45,000                      |          |       |

The output of durable consumer goods like bicycles, sewing machines, antibiotics and power driven pumps etc., was also expected to increase.

Thus, there were only modest plans for the industrial expansion as the outlay assigned for this purpose was comparatively smaller and greater emphasis was on the development of agriculture and irrigation. Moreover, the development of industries was left mainly to private enterprise. It is gratifying to note that the private enterprise could raise the necessary finance from the market or from their own resources and has brought about the proposed industrial expansion. The Progress Report on the Plan indicates that the industrial production increased satisfactorily.

III. *Transport, Power and Irrigation.* In order of priority, they were next to only agriculture. The outlay for them was Rs. 1,218 crores *i.e.* 51.7 p. c. of the total outlay. Their development was to serve as a means of increasing the production in other spheres. For example, the expansion of transport is essential for rapid industrial progress as is that of irrigation for agriculture.

IV. *Social Services.* They occupied the next important place and were assigned 22 per cent of the total outlay. The various social and welfare services to be developed are education, health, and housing etc. Their development is very essential for making India a Welfare State.

*The Plan and Employment.* Though the Plan was criticised for not ensuring full employment but it was expected to make a two-fold contribution to the solution of the problem of unemployment. (a) More investment would result in plenty of construction activity which would provide employment to a large number of people. (b) In the newly established big enterprises and projects, many people would get employment at the next stage. As a result, the Plan was estimated to provide additional employment to about 55 lakh people and part-time employment to about 35 lakh people. But the number of unemployed persons was estimated at about 165 million. Hence, this was a very small contribution to this problem. The Planning Commission was conscious of this fact and had pointed out that "the elimination of the unemployment in an undeveloped economy is by its nature a somewhat long term problem.....Expansion of employment opportunities is in the last analysis a function of the rate at which the national output is being raised, and it is for this reason that a plan of development for a particular period has



to be viewed as part of a bigger programme on an accelerated rate”.

Only within two years of the working of the Plan, the problem of unemployment became so serious that the Planning Commission had to think of some short-term measures and it adopted an eleven point programme as follows :—

(1) Opening of work and training camps in places where additional construction is proceeding *e.g.*, in irrigation and power projects, road construction programmes, co-operative land settlement projects etc.

(2) Special assistance to persons wanting to start small industries or businesses.

(3) Cottage and small-scale industries to be helped through purchase of their products by State Governments and public authorities.

(4) Providing of more training facilities for those vocations where man-power shortage existed at present.

(5) Many one-teacher schools to be opened in rural areas and establishment of adult education centres in cities.

(6) Provision of National Extension Service in the rural areas.

(7) Development of road transport.

(8) Private building activities to be encouraged.

(9) Clearing of slums and construction of houses for low-income groups in urban areas.

(10) Refugee townships to be given active help.

(11) Private schemes for the development of power to be encouraged.

To implement all the above schemes for relieving unemployment, an additional expenditure of about Rs. 170 crores was to be added to the total outlay of the plan.

### **Financing of the Plan.**

The First Five-year Plan provided for a total outlay of Rs. 2069 crores. About Rs. 738 crores were expected to be available from budgetary surpluses of the Central and State Governments. Another Rs. 520 crores were to be raised by the Gov-

ernments through loans from the public, small savings, deposits and other funds etc. External assistance of the value of Rs. 156 crores had already been received or promised from the International Bank, U.S.A., Canada, Australia, New Zealand etc. The total amount from all these sources amounted to Rs. 1,414 crores. It left a gap of Rs. 655 crores which was to be met by additional taxation, borrowing or deficit financing. The amount of Rs. 1414 crores was to be raised in the following ways :—

| Plan period 1951-56 (crores of rupees).                |  |                           |             |
|--|--|---------------------------|-------------|
|  | Centre<br>(including<br>Part C States) | Part A<br>and B<br>States | Total       |
| 1. Public Savings from :—                              |  |                           |             |
| (a) Current revenues                                   | 160                                    | 408                       | 568         |
| (b) Railways   | 170                                    | —                         | 170         |
| 2. Private Savings from :—                             |  |                           |             |
| (a) Loans from the public                              | 36                                     | 79                        | 115         |
| (b) Small Savings and other<br>unfunded debts          | 270                                    | —                         | 270         |
| (c) Deposits, funds and other<br>miscellaneous sources | 90                                     | 45                        | 135         |
| Total of 1 and 2                                       | 726                                    | 532                       | 1,258       |
| 3. External Aid received                               | ...                                    | ...                       | 156         |
|  |  |                           | <hr/> 1,414 |
| Gap  | ...                                    | ...                       | 665         |
|  |  |                           | <hr/> 2,069 |

Later on, the outlay of the Plan was expanded to Rs. 2244 crores and the gap became still bigger. It was proposed to meet this by drawing upon our sterling balances and through more of taxation, borrowing and deficit financing.

There had been a criticism of the Plan on the ground that the Commission was too optimistic in its estimates of available financial resources. Let us see how far this criticism was right.

(i) *Borrowing*.—In First Plan outlay, it has been an important item in the domestic resources. The response from the public has been quite encouraging in regard to the loans and small savings. The receipts from the loans over



the five-year period came to about Rs. 202 crores whereas the Plan target was of Rs. 115 crores. The receipts from the small savings and unfunded debts were Rs. 303 crores against the Plan target of Rs. 270 crores. Same was the case of deposits, funds etc.

(ii) *Taxation*.—During the Plan period, the expansion in the tax receipts of the Centre and the States has been rather small. The States Governments hesitated in imposing betterment levies and higher irrigation rates. Therefore, they could not have much of budgetary surpluses. In the final year of the Plan 1955-56, the total receipts from the taxes were about Rs. 750 crores which showed an improvement of only about Rs. 100 crores as compared to 1950-51.

(iii) *External Assistance*.—Total external help taken during the first three years of the Plan amounted to about Rs. 129 crores. In the fourth year, external help taken was of the value of about Rs. 17 crores. The amount for the year 1955-56 was about Rs. 83 crores. During the five years of the Plan, the external help amounted to about Rs. 206 crores, though more of it was available.

(iv) *Deficit Financing*.—When a government is required to incur more expenditure than its total receipts from all sources, it meets its deficit by issuing fresh currency or by borrowing from the Central Bank. This is said to be a case of deficit financing. Sometimes, the government has to spend from its previously accumulated cash balances. As a result of all this, total amount of money in circulation increases and it leads to an inflation in the country. If the deficit financing is resorted to in times of depression, it leads to production of more goods and very little rise in prices. “In an underdeveloped economy, where unutilized resources and man power are easily available, deficit financing can achieve the twin objective of increasing employment and rapid capital formation.

In the First Plan, the gap of about Rs. 655 crores was to be covered through measures of deficit-financing such as additional borrowing, creation of more currency and additional taxation. But this estimate proved to be too optimistic and the State Governments could not impose the additional taxes to that extent as suggested by the Planning Commission. But the deficit financing to the extent of Rs. 290 crores was proposed to

be met from India's sterling balances. This much of deficit financing was not expected to create much of inflation because it worked hand in hand with the stability created by the Plan. On the whole, deficit-financing was on a moderate scale in the First Plan period. In the year 1951-52, there was a surplus and in the remaining years, there were overall deficits to a small extent. The estimate of the Reserve Bank indicates that there was a total deficit financing of Rs. 450 crores in the whole Plan period. During the first three years of the Plan, the amount of deficit financing was very limited but in the last two years, deficit financing had to be resorted to on a bigger scale.

The alternative to deficit-financing was cutting down the total outlay of the Plan and thus curtailing the tempo of economic development. The other method was to make the people undergo more sacrifices and have more domestic savings. It was essential for the country to go ahead with economic development even though deficit financing if necessary, because our people were not in a position to put up with more sacrifices as they were already leading a low standard of life. In order to achieve the required economic progress, it was necessary for the government to resort to deficit financing and be ready for its bad results. On the whole, the Plan has proved to be quite realistic and the misgivings about the success of the Plan have proved to be incorrect. The necessary funds could be raised through a well administered system of monetary controls and the whole-hearted co-operation of the public.

The outlay of the Plan was increased from Rs. 2069 crores to Rs. 2378 crores. But the actual expenditure over the Plan has been Rs. 1960 crores *i.e.*, 82% of the estimated outlay. The expenditure has been less in all sectors *e.g.*, in agriculture and irrigation by 12 p. c., in industries by 47 p. c. and in social services by 31 p. c. The expenditure was very low in the first two years and it stepped up in the third year and most of it was incurred in the last two years. The estimate of the total investment for the five years was between Rs. 3500 and 3600 crores. But the actual investment in both, the public and the private sector was about Rs. 3100 crores during the period of five years.

### **Progress and Achievements under the Plan.**

The main objective of the Plan has been to bring about a balanced and rapid economic development of the country. It was chiefly meant to strengthen the basic economy so that there



may be a rapid economic advancement in the next plans. It also tackled the urgent problems created by war and partition e.g., inflation, shortage of food and raw materials. It was of the "ground-preparing" type and mainly aimed at the attainment of economic stability. Its targets were modest and could be achieved easily.

*Agricultural Progress.*—Agricultural production showed much improvement during the period of the Plan, and had increased by 19 per cent. The output of the food-grains was about 3 million tons above the target laid down in the Plan and was 64·9 million tons in 1955-56. There was a fairly good increase in the output of cotton, jute and oilseeds. Additional area brought under irrigation was 60 lakh acres of land through major works and 1 crore acres through smaller irrigation works. The installed capacity of electric generation has increased by more than a million kilowatts.

*Industrial Progress.*—The industrial production increased by about 40 p. c. The production of mill cloth exceeded its target by 400 million yards. The output of sugar, sewing machines, bicycles, paper and paper board also exceeded the Plan targets. The production of cement shot up from 2·7 million tons in 1950-51 to 4·6 million tons in 1955-56. There was considerable increase in the output of chemical, heavy chemical and engineering industries. Several new industries were set up such as petroleum refining, ship building, manufacture of aircrafts, railway wagons, penicillin and DDT etc. In the public sector, various industries such as Sindri Fertilizer, Chittaranjan Locomotive Works, Telephone Factory and Integral Coach Factory made good progress. But the Machine Tools Factory, Nepa Newsprint Factory, and the Bihar Superphosphate Factory failed to attain their targets and the iron and steel plant and heavy electrical equipment plant could not be commenced at all.

*Progress in Transport.*—In the first four years of the Plan, 80 miles of new railway lines were constructed and 293 miles of dismantled lines were restored. In regards to the National Highways, 140 miles of new roads were constructed, 1200 miles of old roads were repaired and 5 major bridges were built.

*Growth of National Income.* During the Plan period, the National Income increased by about 17 p. c. The increase was



the highest in the year 1953-54. Per capita income increased by about 10·5 p. c. ( from about Rs. 250 to Rs. 280 ). The National Income rose to Rs. 10800 crores.

### Shortcomings of the First Plan.

(1) The Planning Commission had not made a correct estimate of the material, capital and human resources of the country before drawing up the Plan. The Commission had not made a correct estimate of the physical resources of the country and attached too great an importance to the financial resources necessary for the implementation of the Plan.

(2) The financial planning also was not of a high standard. The outlay of the original Plan had to be increased from Rs. 2069 crores to Rs. 2356 crores. Again, the actual expenditure incurred was less by a fairly big amount perhaps owing to shortage of materials, equipments, and trained personnel. The Planning Commission had failed to visualise these difficulties and could not integrate properly the physical plan with the financial plan.

(3) The Plan had no annual breakdowns of the various targets of development. In the absence of such annual control figures, it was difficult to know from time to time if the progress was according to schedule in the different spheres. For this very reason, shortfalls could not be known earlier and corrective measures could not be introduced.

(4) As the Plan laid the main emphasis on agriculture, the development of industries was deliberately neglected. Even the small outlay for the large and medium industries was not fully spent. Therefore there could be very little industrial expansion in the organised sector.

(5) There were some defects in the agricultural planning also. There was no arrangement for crop-planning and for fixing the lower and upper limits of crop allocations. There was no provision for crop insurance either in the agricultural section.

The above defects of the First Plan should be overlooked as this Plan was the first experiment in the direction of developmental planning to improve the backward Indian economy. On the other hand, it deserves a word of praise as it "has introduced a new dynamic element in a long static and stagnant



situation.” The signs of Improvement are visible in the Indian economy as is apparent from the statistics given below:—

**Targets of Production and Achievement.**  
(First Five-Year Plan)

|                                     | Target of<br>Production<br>(5 years) | Actual<br>Production<br>(1955-56) | Actuals<br>as per-<br>centage<br>of targets |
|-------------------------------------|--------------------------------------|-----------------------------------|---|
| <i>I. Agriculture.</i>              |                                      |                                   |   |
| (a) Foodgrains (million tons)       | 7·6                                  | 10·9                              | 143 p.c.                                    |
| (b) Cotton (lakh bales)             | 12·6                                 | 10·3                              | 82 p.c.                                     |
| (c) Jute „                          | 20·9                                 | 9·0                               | 43 p.c.                                     |
| (d) Sugarcane (lakh tons)           | 7·0                                  | 2·4                               | 35 p.c.                                     |
| (e) Oilseeds „                      | 4·0                                  | 5·6                               | 156 p.c.                                    |
| <i>II. Irrigation and Power.</i>    |                                      |                                   |   |
| (a) Area irrigated (million acres)  | 19·7                                 | 14·0                              | 71 p.c.                                     |
| (b) Electricity (million k.w.)      | 1·3                                  | 1·1                               | 84 p.c.                                     |
| <i>III. Industry.</i>               |                                      |                                   |   |
| (a) Finished Steel (lakh tons)      | 6·7                                  | 3·0                               | 45 p.c.                                     |
| (b) Pig iron „                      | 12·6                                 | 2·2                               | 17 p.c.                                     |
| (c) Cement „                        | 21·1                                 | 19·0                              | 90 p.c.                                     |
| (d) Aluminium (1000 tons)           | 8·3                                  | 3·6                               | 43 p.c.                                     |
| (e) Locomotives (Nos.)              | 170                                  | 176                               | 104 p.c.                                    |
| (f) Mill cloth (Million yards)      | 982                                  | 1384                              | 141 p.c.                                    |
| (g) Handloom cloth „                | 890                                  | 639                               | 72 p.c.                                     |
| (h) Sewing Machines (100 Nos.)      | 58·5                                 | 78 0                              | 133 p.c.                                    |
| (i) Sugar (Million tons)            | 400                                  | 760                               | 190 p.c.                                    |
| (j) Bicycles (1000 Nos.)            | 433                                  | 416                               | 96 p.c.                                     |
| (k) Jute Manufactures (1000 tons)   | 376                                  | 230                               | 61 p.c.                                     |
| (l) Power alcohol (million gallons) | 13·0                                 | 5·4                               | 41 p.c.                                     |

*Position after the First Plan.*—In spite of the achievements of the First Plan, our living standards are among the lowest in the world. Consumption of food and cloth by the average Indian is below the ordinary level. Housing is deficient and only about half the children in age group 5-11 and less than  $\frac{1}{5}$  of the children in the age group 11-14 attend schools. More than half the people of India spend about Rs. 13/- per month on consumption goods. Our per capita consumption of steel and energy is a minor fraction of that of U. S. A. and Japan. There is much unemployment and under-employment in the

country. Now, the country is going through the Second Five-Year Plan to improve the economic condition of the country and raise its standard of living.

### Questions and Projects.

1. What is the importance of planning? Why is India undertaking the five-year plans?

2. What was the total outlay under the First Five-Year Plan? How was it distributed over the various sectors?

3. What were the reasons for giving highest priority to agriculture? Was it justified?

4. Prepare a chart showing the targets of production in the various sectors giving all important items of each sector.

5. What were the main schemes for the development of agriculture and industry under that Plan?

6. How was the problem of unemployment tackled through the schemes of the Plan?

7. Prepare a brochure about the main sources of finance contemplated under the Plan for the economic development of the country giving a brief description of each source and a full explanation and pros and cons of deficit financing.

8. What progress was made in the fields of agriculture and industry under the First Plan?

9. Describe the shortcomings of the First Five-Year Plan.

10. Prepare a chart showing the figures of production of the various items under agriculture, industry and irrigation and power. You should also give the relation between the actual production and the targets indicating through per centage.

11. What was the condition of the country just after the First Five-Year Plan *i.e.*, in 1956? Was there any perceptible improvement in the living standards of the people? How did it compare with some advanced countries of the world?

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## CHAPTER XI.

### The Second Five-Year Plan.

The First Five-Year Plan was to be followed by a series of plans in order to increase the national income. It is expected that through such plans the national income might be trebled by 1976 and the per capita income may be doubled. The First Plan which ended in March, 1956, was meant to lay the foundations on which a more diversified economy could be built up. During the First Plan Period, both agricultural and industrial production increased. It is against such a cheerful atmosphere that the Second Plan was drawn up on an ambitious scale. "The Second Five-Year Plan has to build on the progress already achieved and to carry forward the process that has been initiated." It is much more ambitious and bolder than the First and was launched on 1st April, 1956. It has provided for a total outlay of Rs. 4800 crores in the public sector.

*Its Objectives.*—"The principal objective of the Second Five Year Plan is to secure a more rapid growth of Indian economy and to increase the country's productive potential in a way that will make possible accelerated development in the succeeding Plan periods." The Second Five-Year Plan has been formulated with some objectives :—

(a) An increase in the national income by about 5 p. c. so that the level of living standards in the country may be raised.

(b) Rapid industrialisation with particular emphasis on the development of basic and heavy industries.

(c) A large expansion of employment opportunities by about 10 to 12 million jobs in the next five years.

(d) Reduction of inequalities in income and wealth and a more even distribution of economic power in order to establish a socialistic pattern of society. In fact, the main objective of our economic policy is not private profit but social gain

or “the accomplishment of a socialistic pattern of society.” The idea is that benefits of economic development should go more to the poorer class of people so that the concentration of wealth and economic power may be progressively reduced.

All these objectives are interconnected. A substantial increase in production and investment is very necessary to bring about an appreciable increase in national income and a significant improvement in living standards. To bring about an increase in production and investment, we should develop minerals and promote basic industries such as steel, machine building, coal and heavy chemicals. All our man power and natural resources should be used to the fullest extent to make progress in all these directions at the same time.

The distribution of the total outlay of Rs. 4800 crores in the public sector of the Second Plan is as follows :—

|  | (crores of rupees) |          |                   |          |
|--|--------------------|----------|-------------------|----------|
|  | <i>Second Plan</i> |          | <i>First Plan</i> |          |
|  | Total              | Per cent | Total             | Per cent |
| 1. Agriculture and community development.      | 565                | 12       | 372               | 16       |
| 2. Irrigation and Flood Control                | 458                | 9        | 395               | 17       |
| 3. Power                                       | 440                | 9        | 266               | 11       |
| 4. Industries and Minerals                     | 891                | 19       | 179               | 7        |
| 5. Transport and Communications                | 1384               | 29       | 556               | 24       |
| 6. Social Services, housing and rehabilitation | 946                | 20       | 547               | 23       |
| 7. Miscellaneous                               | 116                | 2        | 41                | 2        |
|  | <u>4800</u>        |          | <u>2356</u>       |          |

### **Schemes of priorities in the Second Plan.**

The above table indicates that the Second Plan lays a marked emphasis on the development of basic and capital goods industries. About 19 p. c. of the outlay is assigned to them and this is much more as compared to the First Plan. After meeting the basic shortages during the First Plan Period, the Planning Commission is now rightly giving a very high priority



to industrial development which is very essential for a rapid economic growth. The industrialisation will help to absorb the surplus population from agriculture. It is very necessary to do so to improve the living standards both in the urban and rural areas. If there is no industrialisation, there would be much less demand for raw materials or the agricultural goods and the whole economy would be adversely effected. As India has started industrialisation rather late, it has to achieve a reasonable development in a short time. It is for this reason that "India during the Second Plan period has decided to embark on an industrialisation programme which would strengthen the capital base, increase productive capacity cum-technical efficiency and accelerate the flow of new investment." It is for this purpose that more attention is being paid to the development of heavy and basic industries and scientific research. In order to bring about a quick industrialisation, we must first develop basic industries like iron and steel, non-ferrous metals, coal, cement, heavy chemicals etc., which will produce capital equipments. These industries can not absorb much of man-power. They would also produce no consumer goods to satisfy the increasing demand for them. It is for this reason that there is a marked emphasis on cottage and small scale industries in the Second Five-Year Plan. A provision of Rs. 200 crores has been made for this purpose. These industries will absorb a lot of surplus man-power and produce consumer goods as well. The farmers who remain unemployed from 4 to 5 months in the year, have also to be provided with some useful work. It is expected that these industries would solve the problem of underemployment and consumer goods shortage as well.

(a) *Industry.* The main features of the industrial development programme are as follows :—(i) Development and expansion of iron and steel production is very essential because the whole economic progress is dependent upon that. It is expected that the three steel plants which are being erected at Bhilai, Rourkela and Durgapur, would make substantial progress. (ii) Heavy engineering, machine building and heavy chemical industries will have considerable development during the Second Plan. All this is essential for the industrial and agricultural expansion of the country. (iii) Much attention is also being

paid to producers' goods industries *e.g.*, cement and phosphatic fertilizers. Cement is an urgent necessity for any construction and development work in the Plan. (iv) The important industries of the country such as Jute, Cotton and Sugar which are already in existence, would be modernized and re-equipped and their increased output would meet the greater demand for their goods and also help to earn some foreign exchange. (v) In the existing industries, an effort would be made to have a fuller utilization of installed capacity. It is expected to result in increased production which would satisfy the expanded demand for consumer goods.

(b) *Agriculture.* The Second Plan gives much less emphasis to the development of agriculture as compared to that of industries. During the Plan period, food production is expected to increase by 10 million tons. The estimate about increase for rice is 3 to 4 million tons, wheat 2 to 3 million tons, other cereals 2 to 3 million tons and pulses 1.5 to 2 million tons. Among the commercial crops, the production of cotton is expected to rise from 4.2 million bales to 5.5 million bales, jute from 4 million to 5 million bales, oil seeds from 5.5 to 7 million tons, sugarcane from 5.8 to 7.1 million tons and tea from 644 to 700 million pounds. The most outstanding defect in the agricultural side is that the 10 million tons increase in food production would be inadequate to meet the expanded demand. Owing to the big outlay of the Second Plan, people would have more purchasing power. It would also be accompanied by an increase in population. Food being the most important item in the budget of an average Indian family, therefore, its demand would be much expanded. It is for these reasons that the government later on raised the food production target from 10 million tons to 15.5 million tons. Thus, the food production should increase to 80.5 million tons by the end of the Second Plan.

(c) *Transport.* The Second Plan provides Rs. 900 crores for the railway development. It is expected that Rs. 150 crores would be provided by the railways from their own revenues and Rs. 750 crores would have to be provided from the general revenues. Another provision has been made for Ganga bridge project which is expected to be completed by 1960. The Plan provides about Rs. 270 crores for road development. Thus, considerable importance is being given to the development of



transport and communications during the Second Plan as it is very essential for the economic development as well as general progress of the country.

*Financing of the Second Plan.* While framing the Second Plan, the Planning Commission first decided about the physical targets and then all possible sources of finance were searched. They have made the Plan very bold and ambitious and have planned for an outlay of Rs. 4800 crores distributed over the various heads as follows :—

|  | (crores of rupees) |
|--|--------------------|
| 1. Surplus from current revenues at existing levels of taxation. | 350                |
| 2. Additional taxation.  | 450                |
| 3. Railway Contributions.  | 150                |
| 4. Provident Funds etc.  | 250                |
| 5. Market loans.   | 700                |
| 6. Small Savings.  | 500                |
| 7. External Assistance.  | 800                |
| 8. Deficit financing.  | 1200               |
| 9. Uncovered gap.  | 400                |
| Total  | <hr/> 4800         |

The above table indicates that the total of budgetary resources of the Central and State Governments raised through taxation, borrowing and other receipts would amount to Rs. 2400 crores. Another amount of Rs. 1200 crores is proposed to be raised through deficit financing. After this, a gap of Rs. 1200 crores is left. Out of this, external assistance of the value of Rs. 800 crores is expected to be received. The remaining gap of Rs. 400 crores is proposed to be bridged by raising more domestic resources which can be nothing else but more taxation.

*I. Taxation.* The Second Plan is much dependent for its financial resources mainly from taxation. Increased national income has to be tapped to have more savings. The tax structure has to be devised in such a way that there may be the maximum amount of savings both in the agricultural and industrial sectors. Higher incomes from business have to be taxed heavily. With an increase in agricultural productivity, the extra income of the agriculturist can be utilized through some fiscal measures.

As there would be a big expenditure on social services and heavy industries, it would result in inflation, more employment, more incomes particularly at lower levels and greater demand for goods. The demand and supply can be adjusted through a differential tax system. More indirect taxes would have to be imposed to cover the articles of mass consumption. Luxuries should be taxed heavily. Due importance would be attached to personal income tax, capital gains tax, wealth tax and taxes on distributed profits and dividends. So far, the burden of taxes has been more on urban people. In order to get more revenue from the rural people for the development work, the structure of indirect taxes needs to be changed and a kind of agricultural tax or betterment levy has to be imposed specially from those who are already taking advantage of the developments and progress. The direct taxes also have to be adjusted in such a way that they do not discourage capital formation. In spite of all these additions and alterations in the tax structure, it is doubtful if tax revenues would provide Rs. 1200 crores (Rs. 800 crores from taxes in the ordinary course and Rs. 400 crores to fill the gap) to make the Second Plan a success.

*II. Borrowing.* During the Plan period, Rs. 1200 crores are expected to be collected through public borrowings. The Government is expecting to get Rs. 700 crores from market loans, nationalised life insurance companies and social security contribution and funds. Another Rs. 500 crores are expected to be collected through small savings. The source of the small savings is capable of yielding more as the enormous expenditure under the Plan is creating more employment and incomes at lower levels. New incomes can be converted into savings through the device of "deferred credit system". People prefer to convert their extra income into savings certificates rather than pay higher taxes.

*III. Deficit Financing.* It is expected to amount to Rs. 1200 crores in the Second Plan. Against this Rs. 200 crores to be offset by drawing down the sterling balances, and the remaining deficit of Rs. 1000 crores to be met through creation of more currency. The additional money supply may not lead to bad results because there is expected to be an increase of 18 p. c. in the national income and a considerable increase in agricultural and industrial production. Some measures such



as building of reserve stocks of foodgrains and control over the prices of foodgrains and cloth will have to be adopted to check the inflationary trends. Perhaps, physical controls such as rationing may have to be resorted to. Heavy taxation will also check the rise in prices. In India and some other countries of South-East Asia, tax revenues are a very small fraction of the national income and tax structure can be remodelled to provide more funds. It is for this reason, much emphasis is being laid on higher taxes in the Second Plan. It had been estimated that deficit financing under the Plan is expected to result in a 35 to 40 per cent rise in prices. The big economic development undertaken in the Plan, will require a huge expenditure of money which can be possible only through the device of deficit financing. "If the size of deficit financing tallies well with the volume of productive public expenditure and if the output can be produced with the minimum time-leg then, it may be possible to neutralize the undesirable dangers of large doses of money supply which result from the application of the technique of deficit financing".

### **Criticism of the Plan.**

(1) Some people are very critical of the financial provisions of the Plan. They think that deficit financing to such a large extent is bound to result in a steep rise of prices and that it would not be possible to collect such large amounts through additional taxation and public borrowings. The Plan is too ambitious and will have to be cut down in the interest of domestic stability.

(2) Great emphasis on cottage and small scale industries has also been criticised because these industries would not be able to satisfy the entire demand for consumer goods. The inevitable result would be inflation. Moreover, using of the country's resources for the development of these industries is encouraging inefficient and outdated methods of production. These industries also would not be able to create the expected volume of employment. Moreover, the aim of development schemes should be not only creation of more employment but also production of more wealth.

(3) The employment aspect of the problem does not appear to be very hopeful. The Plan is expected to create about 10 to 11 million jobs which would absorb only the new entrants



to the labour force. Thus, the extent of unemployment would remain at the present level even after the investment of such large resources. It is also doubtful if the Plan would be able to create 10 to 11 million new jobs.

(4) Foreign exchange budget of the Plan has been vague and indefinite. We are not at all sure about the contents and amount of imports that will have to be made for the execution of the various projects. There are no bright prospects of increasing of our exports because the increasing incomes in the country would absorb more domestic production.

### **Difficulties in the implementation of the Plan.**

(a) *Inflationary trends.* Since the beginning of the Second Plan, prices have been steadily rising. During 1956-1957, there was a rise of 8 p. c. The rise in prices has continued in the years 1957 and 1958. The rise was mostly in the case of food-grains and industrial raw materials and their prices have touched a high peak in the first month of 1959. It has led to an increase in the cost of living, expenses of administration and higher production costs. As there was a greater inflation in other countries, therefore our imports of equipments are costing us much more. Owing to this inflation at home and abroad, the cost of the Plan has gone up to Rs. 5400 crores.

(b) *Higher expenditure on non-development items.* The assumption that the non-development expenditure will not increase, has been found to be wrong. The expenditure on defence has been increasing year by year and has gone up from Rs. 172.23 crores in 1955-56 to about Rs. 278 crores in 1958-59. Within the first three years, defence expenditure has increased by Rs. 230 crores. The States are also incurring much more expenditure on items outside the Plan. During the last two years, the high taxes have imposed so much strain on the people, the industries, savings, capital formation etc., that it is becoming very difficult to find new resources for investment. The revenues of the Union Government have been increased from Rs. 428 crores in 1955-56 to about Rs. 760 crores in 1958-59.

(c) *Adverse Balance of Payments.* The Plan has put much strain on the balance of payments position. The foreign exchange position has become quite critical and the foreign assets of the Reserve Bank have gone down by more



than Rs. 500 crores. Consequently, the imports have been cut down to the minimum and the speed of development work seems to be slowing down. It has led to reduction and curtailment of several schemes in the Plan and the efforts are being made to complete only the 'core' of the Plan. If substantial amount of foreign aid does not become available to import equipments for the various projects, further pruning of the Plan will have to be done. There is the need of very great efforts particularly in regard to the production of food-grains. The authorities have to be very vigilant as we cannot afford to fritter away the available foreign resources just like that. No efforts should be spared to step up the food production.

A few months back, an industrial mission and the Finance Minister visited a number of foreign countries in search of foreign aid for carrying out the projects of the Plan. As a result, substantial foreign loans and grants are being received and it is expected that the foreign exchange demands of the Plan would be fulfilled through them. Some economists think that with a foreign assistance of Rs. 700 crores, it may be possible to carry out the Plan of 4800 crores, provided the domestic resources are mobilized fully. All available resources must be utilized fully. They also give very great importance to the promotion of exports to correct the adverse balance of payments.

*Operation of the Plan.* During the first two years of its working, the total expenditure on the Plan was Rs. 1496 crores and for 1958-59, it is expected to be about Rs. 1000 crores. Thus, the outlay for the first three years will come to Rs. 2456 crores. Hence, Rs. 2344 crores should be spent in the last two years. It is expected that Rs. 1804 crores would be available during the next two years. But the Commission think that the Plan should not be cut down to less than Rs. 4500 crores outlay otherwise the balance between its various sectors would be disturbed. The outlay of 4500 crores is needed for agricultural projects, 'core projects' and projects which have made a fairly good progress. Even for this reduced outlay, an amount of about Rs. 250 crores has to be found out from somewhere. We can not think of more deficit financing or external assistance and it has to be raised through more of taxes, loans, small savings and economics in non-plan expenditure.

A table of statistics is given below showing how the Plan has been financed in the first three years and how it is expected to be done in the last two years after having reduced its outlay to Rs. 4500 crores.  
(In crores of Rs.)

|  | Financing done in the first three years.<br>1956-59 | Last two years' expected resources.<br>1959-61 | The original Plan.<br>1956-61 | After cutting down of total outlay to 4500.<br>1956-61 |
|--|---|--|-------------------------------|--|
| <b>1. Budgetary Resources.</b>                 |   |  |                               |  |
| (a) Balance from current revenues.             | 439   | 460  | 1200                          | 899  |
| (b) Contribution of Railways.                  | 129   | 121  | 150                           | 250  |
| (c) Loans and small savings.                   | 544   | 500  | 1200                          | 1044   |
| (d) Unfounded debt and other capital receipts. | (—)11   | 80   | 250                           | 69   |
| <b>2. External Assistance.</b>                 | 438   | 600  | 800                           | 1038   |
| <b>3. Deficit Financing.</b>                   | 917   | 283  | 1200                          | 1200   |
| <b>4. Total (outlay and resources)</b>         | <b>2456</b>   | <b>2044</b>                                    | <b>4800</b>                   | <b>4500</b>  |

Another table is given below showing the revised allocations under the original plan of Rs. 4800 crores and the outlay now being made available for the various items after cutting down the Plan to Rs. 4500 crores.

|  | Revised allocations in original Plan. | Percent of total | Allocations in the reduced Plan | Per cent. of total. |
|--|---------------------------------------|------------------|---------------------------------|---------------------|
| Agriculture and community Development. | 568                                   | 11·8             | 510                             | 11·3                |
| Irrigation and Power.                  | 860                                   | 17·9             | 820                             | 18·2                |



|                               |      |       |      |       |
|-------------------------------|------|-------|------|-------|
| Village and Small Industries. | 200  | 4.2   | 160  | 3.6   |
| Industries and Minerals.      | 880  | 18.4  | 790  | 17.5  |
| Transport and Communications  | 1345 | 28.0  | 1340 | 29.8  |
| Social Services.              | 863  | 18.0  | 810  | 18.0  |
| Miscellaneous                 | 84   | 1.7   | 79   | 1.6   |
| Total                         | 4800 | 100.0 | 4500 | 100.0 |

As a result of cutting down the Plan to Rs. 4500 crores, the State Plans would be much effected. The 'core' of the Plan and transport and communications are likely to go through as originally planned. There would be some reductions in the social services, irrigation projects and small industries.

In the private sector, the original outlay of Rs. 685 crores is likely to be reduced to Rs. 575 crores and as a result, only about 75 per cent of the targets would be achieved.

*Shortfall in resources.* Major part of the taxes have been used up for defence, non-development expenditure and expenditure outside the Plan. Another obstacle has been the fall in food production very much below the Plan targets. The irrigation facilities have not been utilized fully. The total savings of the public have been much less than the estimates of the Plan. Of course, rise of prices at home and abroad has also been responsible for this difficulty.

Now, the targets of the reduced Plan can be achieved if we go all-out to increase agricultural production and to mobilize the internal resources of the country. Non-development expenditure should be cut down as much as possible. Export drive should be intensified.

*'Core' of the Plan.* Owing to their shortage, foreign exchange resources are to be utilized now only for those projects, for which foreign aid has been already received or is being negotiated or these resources would be made available for the 'core' of the Plan and for the completion of those projects which have made sufficient progress.

The 'core' of the Plan includes the following projects :—

1. *Steel*—Rourkela, Bhilai and Durgapur steel plants. Mysore Iron and Steel Works for ferro-silicon expansion only.



2. *Coal*—Schemes of the National Coal Development Corporation.

3. Coal washeries.

4. Neiveli lignite project (mining part only).

5. Railway development programme including the expansion of the Posts and Telegraphs Department in connection of the railways.

6. Ports development programme. The ports of Bombay, Calcutta, Madras and Vishakhapatnam.

7. Some power projects.

Besides these projects in the public sector, there are some in the private sector also which are included in the 'core'. They are for example the expansion programmes of the Tata Iron and Steel Works, the Indian Iron and Steel Works and the coal mining schemes.

### **Progress of the Second Plan.**

In the first year of the Plan, the progress was quite substantial in some spheres and it was moderate in others. Against the outlay of Rs. 830 crores for the first year, the actual expenditure was about Rs. 760 crores a shortfall of 8 p. c. First year's expenditure was mostly from the budgetary resources (Rs. 427 crores). The external assistance was about Rs. 63 crores. The remaining gap of about Rs. 270 crores was covered mostly through deficit financing. There was improvement in production in all principal organised industries excepting aluminium and vanaspati. The increase in output ranged between 33 and 80 p.c. in bicycles, automobiles, electric motors, transformers, radio receivers etc. In some other industries such as cement, sugar, diesel engines, there was an increase of production from 10 to 25 p.c. The production of coal showed a modest increase of 1.2 million tons. Production of some new goods such as portable electric drills, shock absorbers, clutch discs, break lining, hydrogen peroxide, capstan lathes  $\frac{1}{2}$ " capacity, salicylic acid, jade green, vat dyes, ferromanganese, zinc strips for dry batteries was started in the country. Handloom production showed an increase of 68 million yards against the five-year target of 700 million yards. Khadi production increased by about 10 million square yards as against



the five year target of 300 million yards. About 60,000 Ambar Charkhas were manufactured and introduced in the year.

*Roads and Railways.* During 1956-57, 87 miles of new railway lines were opened to traffic and at the end of the year, construction of 529 miles of new lines was in progress. Work was in progress on about 700 miles of doubling. The Western tube of the new Banihal tunnel on the Jammu-Srinagar Section of National Highways, was opened to limited traffic in December 1956. It was for the first time that an all-weather road communication started between the Kashmir Valley and India.

*Irrigation and Power.* During the first year, an additional area of about 1.5 million acres was irrigated from large and medium works and another 1.6 million acres through the construction of minor irrigation works. The installed capacity for generation of power was increased by about 260,000 K. W. against a target of 308,500 K. W. Schemes of electrification covered about 2000 small towns and villages thus raising the number of electrified towns and villages to 9400 by the end of that year.

*Agricultural Sector.* Actual increase in agricultural production was about 1.4 million tons. The total food production in 1956-57 was about 66.2 million tons as compared to 64.8 million tons in 1955-56. The production of oilseeds showed only a slight increase. The production of cotton increased by about 8 lakh bales and of jute by 24 lakh bales. Sugarcane also showed a slight increase of 0.4 million tons.

*Training and Research.* Greater attention was paid to the requirements of technical personnel. Recommendations of the Engineering Personnel Committee were implemented for the expansion of training facilities. Technicians for the three steel plants were begun to be trained. India's first atomic reactor was installed and work on the Canadian reactor made fairly good progress.

*Progress in the Second Year of the Plan and prospects of its completion.* There has been a marked improvement in some spheres and only slight progress in others during the second and third years.

(a) *Agriculture.* Upto 1956-57, the results in agricultural production had been uneven in different States and not in proportion to the large expenditure incurred in this side. An increase of 2 to 2.5 per cent per annum is not sufficient to support a large plan of economic development. The additional production during the year 1957-58 was estimated to be 2.3 million tons.

(b) *Community Development Programme.* In 1956-57, 495 blocks and in 1957-58, 597 blocks were brought under the national extension scheme. During these two years, 440 blocks were converted from N.E.S. into community development blocks. By the end of the second year, Community Development Programme served 276,000 villages with a population of 150 million. The total expenditure incurred under this programme during this period was about Rs. 53 crores. For the year 1958-59, Rs. 36 crores had been allotted for this. In course of time, the distinction between the national extension projects and community projects is to be done away with.

(c) *Irrigation and Power.* The total outlay likely to be incurred in this sector by the end of 1958-59 amounts to Rs. 479 crores of which multi-purpose and irrigation schemes account for Rs. 257 crores, power projects for Rs. 193 crores and other schemes for Rs. 29 crores. Against an additional irrigation target of 12 million acres proposed in the Second Plan, the progress actually made shows that the additional irrigation would be of the order of 10.4 million acres. In regard to the power programme, the actual realization of benefits within the Plan period from projects in the public sector were estimated at about 2.5 million K.W. Private electricity undertakings are expected to add a total generating capacity of 175,000 K.W. With the addition of 300,000 K.W. of generating capacity in industrial establishments which provide for their own power, the total installed capacity during the Second Plan period is expected to be nearly 3 million K.W. as against the original target of 3.5 million K.W.

The construction of transmission and distribution lines is making satisfactory progress. Out of the total target of 30,000 miles, 10,000 miles were constructed during 1956-57 and 1957-58. Also, about 4500 villages were electrified during these two years against the target of 10,000 villages for the whole Plan period.



(d) *Village and Small Industries*.—During 1957-58, the handloom production was estimated at 1650 million yards, which is short of what is required to achieve the target. The production of traditional *khadi* has been increasing at the rate of 5 million yards per annum and no specific target was fixed for this. Out of the 62 sanctioned industrial estates, 11 were completed in the first two years and 19 are expected to be completed in 1958-59. For providing technical and marketing advice to small industries, 4 regional Small Industries Service Institutes, 12 major Institutes, 2 branch Institutes and 27 Extension Centres had been set up by the end of 1957-58. One more regional Institute, two major Institutes and another 33 Extension Centres are expected to be set up by the end of 1958-59.

In the first two years of the Plan, the total expenditure on village and small industries amounted to Rs. 59 crores and by the end of the third year, it is expected to increase to Rs. 91 crores. Khadi and village industries account for about  $\frac{2}{5}$  of the expenditure, small scale industries and industrial estates for more than a quarter and handlooms and powerlooms for about a fifth. Indications are there that bigger allocations of funds would be demanded in the next two years of the Plan. Very much larger outlays than were provided in the first three years would be needed for the handloom programme if a target of 700 million yards of additional production from mill yarn is to be achieved.

*Large and Medium Industries*. During the first three years of the Plan, the total outlay on industrial projects in the public sector is estimated to be about Rs. 430 crores. By the end of the second year, a number of industrial schemes begun during the First Plan, had been completed. They included the DDT plant at Alwaye, expansion of the DDT plant at Delhi, expansion of Hindustan Antibiotics, the Porcelain Insulators scheme at the Government Porcelain Factory in Mysore, Government Soap Factory (Bangalore), the spun-pipe plant of the Mysore Iron and Steel Works, the Bihar Superphosphate Factory and the provision of balancing equipment in the NEPA plant. As a result of completion of these schemes, the capacity for the manufacture of DDT increased by 2100 tons, of penicillin by 19.2 million mega units and of superphosphate by 33,000 tons. NEPA achieved its full capacity of 30,000 tons of newsprint per annum.

and capacity for the manufacture of 2,500 tons of insulators was established.

During 1958-59, the following industrial schemes are expected to be completed.

| <i>Project</i>  | <i>Additional capacity</i>                                     |
|---|--|
| 1. Expansion of Sindri Fertilizer Factory.  | 47000 tons of Nitrogen.  |
| 2. First Blast Furnaces at Bhilai and Rourkela.                                       | 700,000 tons per annum of pig iron forming the first phase.    |
| 3. Durgapur Coke-oven project of West Bengal.   | 285,000 tons of hard coke.                                     |
| 4. Hindustan Machine Tools, stepping up of production of milling machines and lathes. | 400 lathes, milling and drilling machines (ultimate capacity). |
| 5. Hindustan Cables Co-axial cables project.  | 530 miles of cables and 300 miles of co-axial cables.          |

The following industrial projects are expected to be fully implemented by the end of the Second Plan :—

| <i>Project</i>  | <i>Additional capacity</i>                                    |
|---|---|
| 1. Bhilai, Rourkela and Durgapur Steel Works.                     | 2·2 million tons of finished steel, 600,000 tons of pig iron. |
| 2. Nangal Fertilizer Project.                                     | 70,000 tons of fixed nitrogen.                                |
| 3. Mining part of the lignite project.                            | 3·5 million tons of lignite.                                  |
| 4. Streptomycin project under expansion of Hindustan Antibiotics. | 45,000 kg. of streptomycin.                                   |
| 5. Ferro-Silicon expansion under Mysore Iron and Steel Works.     | 15,000 tons of ferro-silicon.                                 |
| 6. Porcelain Insulators Project of Bihar.                         | 2,000 tons of Insulators.                                     |
| 7. Hindustan Shipyard.  | Expansion of capacity to build 8 to 12 ships per year.        |
| 8. U. P. Government Cement Factory—expansion.                     | 2,31,000 tons of cement.                                      |



Next, we give an account of some other industries in regard to the achievements of their targets. In the case of aluminium, ferro-manganese and caustic soda, there will be much shortfall as against the original targets. The original target of capacity for heavy chemicals will be substantially achieved but there will be shortfalls in case of cement and dyestuffs. In the case of engineering industries, there will be some shortfalls in respect of all types of machinery except sugar machinery. The targets for locomotives, wagons and bicycles will be achieved. The automobile manufacturing programme will lag behind the schedule. In the field of electrical engineering industries, the original target of capacity will be achieved. Targets of capacity for consumer goods industries will be achieved except in the case of paper, newsprint, rayon, filament and sugar.

*Development of Mineral Resources.* During 1957-58, the production of coal was estimated to increase by 3 million tons. Over the Plan period, it is expected that there may be a shortfall of 3 or 4 million tons in coal production against the target of 60 million tons annually. The Plan provides for the setting of 4 coal washeries and they are expected to be functioning before the end of the Plan period. Oil exploration has been in progress in different areas since the beginning of the Plan. Fairly good progress has been made in the programme for coal prospecting.

*Transport and Communications.* It is expected that the railways will be able to carry 42 million tons of additional freight traffic by 1960-61 (though less than the original estimate of 61 million tons). The target in respect of the passenger traffic viz., provision for an increase of 3 per cent per annum is also likely to be fulfilled.

The Second Plan had provided Rs. 45 crores for shipping. This amount has already been committed and tonnage likely to be acquired as a result of these commitments is only about 1,80,000 GRT against the Plan target of 3,90,000 GRT. In regard to major ports, the Plan envisaged raising the handling capacity of the ports from about 25 million tons to 33 million tons and it is expected to be achieved. In regard to roads, the Plan provides for the construction of about 20,000 miles of surfaced roads, besides construction of major bridges, missing links and improvements etc.



*Communications and Broadcasting.* The schemes in regard to telephones and cables are likely to be retarded owing to foreign exchange difficulty. In regard to Civil Aviation, some schemes may have to be staggered. The programme of the two Air Corporations may be expected to go through in full. In the field of broadcasting, installation of new transmitters and studios and of television facilities may have to be postponed.

*Social Services.* In the field of education, there has been a considerable progress in respect of elementary education and technical education. The number of institutions has been increasing rapidly as shown below :—

| <i>Item</i>          | <i>5 Year Plan<br/>Target</i> | <i>Progress<br/>1956-57</i> | <i>Progress<br/>1957-58</i> |
|----------------------|-------------------------------|-----------------------------|-----------------------------|
| Primary schools      | 52,762                        | 22,200                      | 23,600                      |
| Junior Basic         | 27,440                        | 2,650                       | 47,00                       |
| Middle schools       | 3,455                         | 1,350                       | 1,500                       |
| Senior Basic         | 5,926                         | 229                         | 666                         |
| High/Higer Secondary | 1,525                         | 1,440                       | 1,440                       |
| Multipurpose         | 837                           | 117                         | 133                         |
| Engineering Colleges |                               |                             |                             |
| Number               | 16                            | 8                           | 2                           |
| Intake (Additional)  | 5,488                         | 840                         | 2,646                       |
| Polytechnics Number  | 55                            | 11                          | 12                          |
| Additional Intake    | 11,796                        | 1320                        | 5670                        |

In the sphere of health, against the Plan allocation of Rs. 274 crores, the total outlay on health programmes over the first three years is likely to be about Rs. 108 crores. At the Centre, the important provisions include malaria control, urban water supply and sanitation, medical education and family planning. In the States, the principal items are hospitals and dispensaries, urban and rural water supply and sanitation, control of diseases and training programmes.

A number of schemes are in progress. Instead of malaria control, now we are having schemes for malaria eradication. About 900 primary health centres have been established during the first two years of the Plan. Since the commencement of the Plan, proposals for setting up 9 medical colleges and expanding 14 existing medical colleges have been approved. Admissions in 1958-59 were estimated to be 4600 as compared



to 3500 before this Plan. By the end of 1957-58, 535 family planning centres had been set up and 400 are proposed to be set up during 1958-59.

For housing schemes, the outlay for the first three years is about Rs. 40 crores. Under the subsidised industrial housing scheme, the programme for the three years (1956-59) involves the construction of 42,600 units, under the low income-group housing scheme of 32,300 units and under the slum clearance and sweepers' housing scheme of about 22,000 units. The village housing projects scheme is being introduced effectively only from 1958-59.

The progress during the first three years of the Plan shows that India will be able to set up her basic and heavy industries much faster with foreign assistance. After the completion of steel plants and other basic projects, our imports will decrease. With the development of our new and old industries and increased production of foodgrains, raw materials and minerals, we will be able to have more for consumption as well as export for paying our loans. Though, our country is receiving considerable foreign aid and loans but all on our own terms and without any political strings attached to it. Countries with conflicting ideologies and foreign policies are giving assistance to our country on a liberal scale because they have been impressed by the earnest efforts which the people of this country are making to improve their condition in a peaceful way. Like India, other under-developed countries (even U.S.A. and Canada) also had to seek foreign assistance at some stage for their economic development. Our country is needing foreign aid at this time because we were left behind in our economic development owing to the foreign powers ruling over this country for a long time and badly exploiting it.

### **Questions and Projects.**

1. What are the main objectives of the Second Five-Year Plan ?
2. Prepare a chart showing the distribution of outlay on the various items under the Second Plan.
3. Describe the scheme of priorities in the Second Plan.

4. Give in outline the main features of the scheme for the development of Industry, Agriculture and Transport.

5. Prepare a chart showing the main sources of financing the Second Plan and the amounts expected to be realised from each source.

6. What prospects are there of getting the scheduled amounts from taxation, borrowing and deficit financing ?

7. Why has a great emphasis been laid on the development of cottage and small-scale industries ?

8. What other criticisms have been advanced against this Plan ?

9. Explain the difficulties that are being experienced in the implementation of the Plan ?

10. Prepare a chart showing how much has been spent on each item in the first three years and how much more is proposed to be done in the last two years ?

11. Why has it become necessary to cut down the Plan. What are the projects included in the "core" of the plan. ?

12. Describe the progress made in the various sectors of the Second Plan in the first year.

13. Prepare a brochure giving an account of the progress made in the second year of the Plan. Also mention the prospects of attaining the targets in the various sectors in the next two years.

14. Make a study of the development schemes for industry, agriculture and transport etc., in your district and find out how much are the people going to be benefitted through them. Put all your information and observations in a small pamphlet.

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## CHAPTER XII.

### Community Development Projects and National Extension Service.

#### Need for Community Projects.

About seventy per cent of Indians live in villages. Their main occupation is agriculture. The yield per acre is very low owing to a number of causes such as small and fragmented holdings, lack of irrigation facilities and manures, poor quality of seeds and animals and the defective system of agricultural credit and marketing. In each village, there are a number of landless workers and artisans who are in a miserable condition. There are no adequate arrangements for education, health and medical service and the means of communication and transport are extremely backward. Economic and social conditions in our rural areas are far from satisfactory. Uplift of our villages is very necessary for the progress of our country.

The State can play an important part in providing cheap credit, irrigation facilities, demonstration farms, improved seeds, manures, hospitals and schools etc. The different departments of the State such as those of Agriculture, Irrigation, Co-operative render all possible help. But the State alone cannot do everything to solve the big problem of our rural areas. In India, there are more than 5 lakhs of villages inhabiting nearly 29 crores of people. The rural reconstruction can take place if the people of the villages put in very hard work and co-operate fully with the State. The condition of the villages can be improved through a close co-operation and integration between the activities of the State and the people themselves. A keen desire for living better life has to be created among the villagers for it will arouse them to greater activity and hard work. The people's enthusiasm has to be canalised and their efforts should be co-ordinated. Their energies should be utilised in the best possible manner to improve their social and economic condition. If the people take an active part in the rural reconstruction work, there can be much better and

quicker progress. For example, for the construction of a road the materials and engineering services can be provided by the State and the people can provide the requisite labour and organisation. This is how the stupendous problem of rural reconstruction can be tackled and the social and economic conditions in the rural areas can be very much improved in a reasonable period of time.

*Basic Principles.* Previously, the different departments of the Government tried to solve different rural problems in their own way. The activities of these departments were very often divided into water tight compartments. But the rural life can not be divided like that. Rural reconstruction work has to be a co-ordinated and comprehensive one. There should be one multipurpose organisation to deal with the various rural problems. The village people have to be infused with the spirit of national resurgence so that they become ready to co-operate in the reconstruction work. The villagers may be encouraged to play the main part and the officials should only assist and guide in this work. It is on these principles that the community development projects are based.

This programme was launched on 2nd October, 1952 in the form of about 55 projects in the different States of India. This type of community development work is not new in our country. Successful experiments were made in the rural reconstruction work by workers trained by Mahatma Gandhi. Experiments were also made in Gurgaon District in the Punjab, in Shantiniketan by Dr. Rabindra Nath Tagore, in Bombay by Sarvodaya Workers, in Madras through the Firka Development Scheme and in Uttar Pradesh through the Etawah Projects.

*Main Objects.* The Community Development Projects aim at rural reconstruction. In certain selected areas, all-round development is aimed at. The main emphasis is on the simultaneous and many-sided development of certain selected areas. No aspect of rural life has to be neglected. For every village or a number of villages, a single multipurpose organisation was to be set up and an attempt was to be made to reach the doors of every home in these areas.

The task of the development was to be carried out by the villagers themselves. No scheme of development was to be



imposed upon them. Aspirations for a higher standard of life were to be inculcated among the rural people so that they may strive for their economic and social development. It is possible to bring about a permanent improvement in the village life only if the village people become full of enthusiasm and determination to raise their living standards.

*Organisation.* There are three types of projects viz. (1) The basic community development projects, (2) the composite development projects and (3) the training centres. In the basic projects, the emphasis is on the development of agriculture and such other works as public health, education, road construction etc. In the composite projects, the main emphasis is on the development of small industries and urban-cum-rural townships together with agricultural improvement.

Each community project will cover approximately 300 villages with an area of about 500 square miles, a cultivated area of about  $1\frac{1}{2}$  lakh acres and a population of about 2 lakhs. The project area is divided into 3 development blocks, each consisting of about 100 villages and a population of about 70,000. Each development block is further divided into groups of 5 villages each.

Each group of 5 villages is the basis of organisation and it is looked after by a village level worker or Gram Sevak. These workers are being given adequate training in methods of agricultural development, animal husbandry and other matters of rural life. They are expected to keep in constant touch with the villages placed under their care. It is their duty to convince the people of the utility of development programmes. They are the pivot of this organisation. They are expected to give a good guidance to the villagers and help them in carrying out the development programme. The work of these village level workers is to be supervised and guided by one Block Development Officer who is in-charge of every Block. Next is the Project Executive Officer in-charge of each project. He is responsible for carrying out the programme of community development in the Project. He is to be assisted by a Project Advisory Committee consisting of leaders, public workers, a few representative agriculturists, the local representatives in the Parliament and State Legislatures, the Chairman of the District Board and the Principal Officials concerned.

In each district, there is the District Development Officer to look after this work. He is to be assisted by a District Development Board. In each State, there is the State Development Commissioner who is to direct the State Community Projects. There is also the State Development Committee consisting of the Chief Minister and the Ministers in-charge of the related Departments.

The Government of India has appointed the Central Committee consisting of the members of the Planning Commission and also the Administrator of the Community Projects who is assisted by a highly qualified executive staff.

*Financial Provision.* The First Five-Year Plan made a provision of Rs. 90 crores for Community Development Projects. It has been estimated that the cost of the development plan in each project area would amount to Rs. 65 lakhs for 3 years. Village level workers are being trained in large numbers. There are now 43 training centres with an annual out-turn of about 5000. The U. S. Government would also bear a part of the expenditure according to an agreement signed in 1952, between the two Governments. The assistance from the U. S. Government would be mostly in the form of equipment and technical aid.

It is hoped that the village units will be provided with the following amenities—Two surface wells or tube wells or tanks for drinking water, adequate facilities for drainage, supply of water through irrigation to at least one half of the agricultural land, improved road system, veterinary and sanitary services, schools for primary education for all school going children, adult education and recreation centres. It is also proposed to provide veterinary hospital, a dairy and a poultry breeding centre, an agricultural school, a primary health unit consisting of 15 beds equipped for mobile work in the villages, a centre for industries, a social education and community activity centre in each Development Block.

*People's Participation.* People's participation in the planning and execution of these projects is an important feature. From the beginning, a serious effort has been made to ensure people's participation not merely in the execution of the programmes but also in its planning. "The aim is that for all development work there should be some minimum voluntary



contribution either in the form of money or of labour. In the backward areas, people have been asked to contribute by labour alone." Thus the whole conception of the Community Development Project has been based on co-operative effort.

*Progress of the Community Projects.* During the period of the First Five-Year Plan, about one-fourth of the rural population was to be brought under the scheme. Work was to be started on 167 blocks in 1952-53 and on 152 blocks in 1955-56. Quite good progress was made in this work. About 372 Development Blocks were started. They cover an area of about 56,887 villages and a population of 33·2 millions. Considerable progress has been made in agricultural programme. In the area of these projects, 241966 compost pits have been dug, 1030,573 mds. of fertilizers, 383,835 mds. of seeds, 25,075 agricultural implements of various types were distributed. A large number of wells and tanks were constructed and repaired and as a result of this, an additional area of 310,957 acres of land has been brought under irrigation. Nearly 5830 miles of kacha roads and 305 miles of pucca roads were constructed. Much work has been done to improve the rural health and sanitation such as the construction of rural latrines, drains, sewage pits etc. More than 2,000 schools, 5,770 adult education centres and 5730 recreation centres were started. About 4155 village houses were constructed and 82,484 were remodelled. The people have co-operated very well and have made a good contribution in cash, labour and materials. Their contribution has been a little less than the half of the total government expenditure incurred during this period.

*Defects.* The progress report of these Community Projects shows that in some items progress is very low. For example, very little has been done in regard to the land reclamation programme and development of rural arts and crafts etc. In the first year, Rs. 32 lakhs were allotted for each project. Only one-third of this amount was spent. The actual government expenditure on all these Projects was about 36·53 per cent of the target. This shows that the expected amount of work has not been done.

The recruitment and training of the workers for this purpose is also slow. Some of the Community Projects which cover a big area and population, have inadequate staff.



Most of the Project Advisory Committees are not functioning properly and in some Project areas, they do not exist at all. The members of these committees are indifferent and have very little interest in the work. If they have any interest, "it is very often of parochial, sectional, or even a personal kind which has proved more of an impediment than a help to the organisers."

Very often, co-ordination is lacking in this work. For example, in some places, a large number of people joined in road building work because they were promised that the roads would be metalled soon after. But at many places, the Project Officers could not fulfil their promise. It caused disappointment to the villagers. Such things happened owing to the formalities in the Government work. Very often, the Government departments take quite a long time in giving the sanction and sometimes the materials and the required staff does not reach in time.

But one satisfactory feature has been the people's willing co-operation. "People specially the common people are ready to participate to the limit of their resources in a socially worthwhile cause."

### **National Extension Service.**

Like the Community Development Projects, the National Extension Service ( NES ) was also started to secure the co-ordinated development of village life. In 1952, the Grow-More-Food Committee made a proposal to start such a service. Their recommendation was that the National Extension movement should be organised in such a way that it may cover the whole country within 7 or 8 years. They also proposed a pattern of official and non-official organisation at all levels. The Planning Commission endorsed these proposals and in 1953, the Government of India started the NES. On 2nd October, 1953, a year after the introduction of the Community Projects, NES was formally inaugurated all over the country. In 1953-54, only 237 NES Blocks were undertaken. The programme is to undertake 1200 blocks. By the end of the Second Five-Year Plan, the entire country is expected to be covered by NES.

*Atm.* NES Organisation is for doing intensive rural work. It is expected to affect every farmer and help in the co-ordi-



nated development of village life as a whole. It is to carry out the reconstruction of rural life. Previously, the various Government Departments used to work independently for the rural reconstruction. Their work was un-co-ordinated and could not be very effective. But the NES is a planned organisation and is touching all aspects of the rural life. In this way, the entire machinery of the Government as well as of the public workers is helping to create enthusiasm among the masses.

*Organisation.* Tehsil or Taluka which consists of 100 to 120 villages is the base of the NES. It constitutes a development block in-charge of a Development Officer or Extension Officer. He is assisted by a number of technical Officers dealing with agriculture, animal husbandry and co-operation. At the bottom of the organisation is the *Gram Sevaks* or the village level workers who are trained for this purpose. For the training of village workers or *Gram Sevaks*, there are 34 centres all over the country. At these centres, the village level workers are given six months' training in extension methods and in the various aspects of rural life such as agriculture, animal husbandry, rural health, sanitation, cottage industries etc.

For each Development Block, the estimated expenditure is about Rs. 7.5 lakhs for 3 years. In each Block, there is one Block Development Officer, three Extension Officers (for agriculture, animal husbandry, co-operatives and Panchayats), two Social Education Organisers (one man and one woman), an Overseer, and 10 village level workers.

The whole organisation is meant to establish the closest contacts with the villagers and every effort is made to associate the people with the work of development. NES aims at making the people aware of their problems and then pointing them the ways and means by which they can solve them. The village Panchayats or any other such non-official organisations are being guided and helped to draw up and carry out the plan of village development.

*Progress.* Upto 1955-56, 988 NES Blocks were set up. Of these about 400 Blocks passed into the phase of more extensive development represented by Community Projects. The plan of work has been that a new block was first taken up under the national extension scheme and after a year or two it was taken up for intensive development. The total expenditure

incurred on these Blocks amounted to Rs. 46.02 lakhs. The voluntary contributions made by the public were of a considerable amount. On the whole, the results have been encouraging. As more workers are trained and more experience is gained it is expected that NES work will make greater progress and will help to create a new pattern of social and economic life in the rural areas.

During the First Plan period, co-ordinated development through community projects and NES programmes was started in 1.23 lakh villages and affected 8 crores of people. In these areas, many useful things such as construction of new schools, conversion of primary schools into basic schools, opening of adult education centres, construction of metalled and unmetalled roads and building of village laterines, were done. The people's contribution amounted to 56 per cent of the expenditure incurred by the Government. People have participated in the reconstruction programmes through Panchayats, Co-operatives and Gram Sevak Mandals.

### **Development Programmes for the Second Five-Year Plan.**

The Second Plan provides that the entire country is to be served by the National Extension Service by 1961 and more than 40 per cent of the extension blocks would be converted into C.D. Blocks. During the period of the Second Plan, 3800 Additional Development Blocks would be taken up and 1120 of these will be converted into C.D. blocks. A provision of Rs. 200 crores was made in the Plan for implementing the programme. (In the revised allocation, it is Rs. 170 crores.) The allotment for each NES Block is Rs. 4 lakhs and for a C.D. Block, it is Rs. 12 lakhs.

In the Second Plan, this programme is intended to be carried out in such a way that it may touch every rural family. It is expected to increase the agricultural production as well as to lead to the progress of (a) co-operative activities such as co-operative farming etc., (b) Panchayats to serve as the main vehicle for village development, (c) consolidation of holdings, (d) village and small industries, (e) assistance to the weaker sections of village community particularly small farmers, landless tenants, agricultural labourers and artisans and (f) more intensive work among women and youth. Under the Plan, there is also the scheme of training two lakh workers in exten-



sion training centres, basic agricultural schools and agricultural wings.

There has been some change in the schedule according to which the whole country is to be covered by the Community Development Projects by October, 1963 and not 1961 as previously laid down. According to the revised plan, NES and C.D. stages are to be merged into a single-phase programme. The three-phase Programme is being changed into two-phase programme in order to increase the speed of work. The two-phase programme is to be implemented within the allotment of Rs. 200 crores by October 1963 and not March, 1961.

*Decentralisation.* A new method is to be followed for block-development. The base for the development work would be the village panchayat, the multi-purpose co-operative and the village school. There will be statutory body with full responsibility for planning and implementing the programme at the block or district level. As recommended by the Balwantrai Mehta Committee, a greater decentralisation has to be introduced in administration and more authority is to be transferred to people's organisation at the village, block and district levels. The idea is that the three village institutions may serve as centres for economic and cultural activities under the community development programme. The existence of the statutory body will ensure necessary flexibility to meet the needs of the particular places in various States. The Block Advisory Committees are only a show and farce and therefore, the popular leaders should take over the supervision work at the block level. At present, the community development work has become Government programme with very little and sometimes indifferent participation from the people. It should be really the people's programme with a limited participation of the Government. The people have to be enkindled to provide the main motive force. Under the changed conditions, it is hoped that people will play a greater part.

In every village, the panchayat and the multi-purpose co-operative will see to the execution of the programme. For this reason, the panchayats are to be given more powers and functions such as of taxation and enforcing the customary obligations. Every village family should be represented in the village co-operative which will carry out the various programmes. In every village, the panchayat and the co-operative should have a



five-year programme for which the whole village should work. More financial assistance would be given to the village co-operatives and special attention would be paid to the backward areas. Various technical and advisory services would be provided. All cultural and social activities of the village will centre round the school. In every development block, there will be one centre for cultural activities so that local arts may be encouraged.

The community development programme is to proceed in close co-operation with the *Gramdan* movement. The chief objective of the programme is to make a village self-sufficient in the primary needs of life such as food, clothing and shelter. The economic life of each village has to be developed in such a way that all primary needs of its people may be fulfilled.

*A General Review and Appraisal.* The community development programme is expected to introduce an era of resurgence into the rural India. The villagers will have better and fuller life. The economic and social life of the rural people will be improved by increasing the productivity from agriculture, promoting the village industries, providing schools, hospitals and other public works and constructing of roads. All this will be achieved better if the people are aroused to extend their full co-operation and they participate voluntarily and zealously in the village uplift programme. Once, the people become eager for a better standard of life, they will put in their whole-hearted efforts for the implementation of this programme. If the community development projects are successfully implemented, they will bring about a complete change in the economic and social life of the village people.

So far, these projects have not been attended with any spectacular success. The reasons are the shortage of trained persons and lack of other facilities. The Third Evaluation Report also indicates that "in the operation of the programme there has been excessive emphasis on physical and 'financial' accomplishments—getting targets achieved, expenditure incurred, buildings constructed etc., and not enough on making the NES an effective agency for carrying out the total programme of development."



Another great defect of this programme has been the absence of any proper scheme of priorities. The greatest importance should have been attached to the increasing of agricultural production. Much more should have been done for the provision of minor irrigation works, suitable manures, good seeds, and for consolidation of holdings because all these are the means to increase the produce from the fields. But the persons concerned have paid more attention to construction of various things which could be displayed as show-pieces of their achievements. It is for this reason, that the Mt. Abu conference emphasised the increased agricultural production. It would be possible if more facilities for irrigation are provided, improved seeds are used, organic and green manures are put in, Japanese methods of paddy cultivation are adopted and techniques of dry farming and soil conservation are introduced. In spite of much expense and efforts, small-scale industries have shown very little improvement. Therefore, it is better to concentrate on increasing the agricultural produce and to provide the basic amenities of the village such as schools, roads and hospitals etc. All this will result in a general improvement of the economic and social life of the villages.

In India, there is a very great pressure of population on land. Progress in agriculture and improvement of the rural area can take place only if the surplus population from the land is shifted to industry, trade, transport and other occupations and more facilities of irrigation, power, transport, banking and communications are made available to the rural areas. In other words, the community development programme can succeed only if the trade, industry, communications and transports also develop at a fast speed side by side and absorb the surplus population from the land. In short, the community development programme is closely connected with the economic development of the country as a whole.

Moreover, the success of the community development movement is to be judged not only in terms of increased agricultural produce or the increased income of the rural people but also in terms of human values. The most important object of this movement is "to change the outlook of 7 crore families living in the country-side, arousing in them enthusiasm for new knowledge and ways of life and filling them with the ambition and the will to live and work for a better life". The

rural people are to be changed from pessimistic creatures of fate into confident human beings, full of hopes, and enthusiasm and ready to put in any amount of work to raise their standard of life.

### Questions and Projects.

1. What do you understand by Community Development Projects ? Explain the basic principles on which they are based.
2. Discuss the main objectives of the Community Development Projects.
3. Give the main features of the organisation of the C. D. Projects.
4. What importance was given to them in the First Five-Year Plan ? How were they financed ?
5. Make a study of the community project area nearest to you. Observe carefully and see for yourself how much progress has taken place in the various spheres such as increasing of agricultural produce, provision of medical help and educational facilities, sanitation and cleanliness of the village, growth of small industries and so on. You should try to get first hand information as far as possible and see the reaction of the rural people to all these changes. You must find out if they are participating voluntarily. Put down all your findings in the form of a brochure.
6. Describe the progress of the community projects in the country during the First Five-Year Plan period. Point out the shortcomings of this programme.
7. What is National Extension Service Scheme ? Explain its aim and organisation.
8. Prepare a pamphlet showing the progress of community projects and National Extension Service Schemes under the First Five-Year Plan. Describe clearly the progress made in the economic, social and cultural life of the rural areas. You have to mention clearly to what extent has the agricultural produce increased, what medical facilities have been provided, how many educational institutions have been provided and what steps have been taken to improve the sanitary conditions in the rural areas. Also, mention to what extent have the



people co-operated and what defects and shortcoming have been found with this programme.

9. What provision has been made for the development of the community projects under the Second Five-Year Plan? What are the special features of this programme under this Plan?

10. Describe the scheme of decentralisation of these projects under this Plan.

11. Give a critical review and appraisal of the progress of community projects in the rural areas. What have been their main defects so far? How can those defects be removed?

12. How can the community projects herald a new era and create a new outlook among the village people of India who are pessimistic and fatalists?

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## CHAPTER XIII.

### Industrial Labour and its Welfare.

#### Supply of Labour.

In the 19th century, the newly started industries of India experienced shortage of labour. There were several causes of this shortage such as :—(a) The population was limited and there was sufficient land for that much population. (b) The labourers were not familiar with the work in factories. (c) There were unsatisfactory conditions of work in factories. (d) Certain factories and industries were situated far away from the centres of population. The outstanding examples are those of tea plantations and coal mines etc. It is for these reasons, labour had to be attracted towards factories and special methods of recruitment had to be adopted. Now, the conditions are different and most of the industries such as jute mills, sugar and cotton mills are able to get workers at their gates, yet the methods of recruitment generally continue to be the same. The commonly known methods of recruitment are described below :—

1. *The Intermediaries.*—These intermediaries who help in the supply of labour, are generally old and experienced workers. They are known as *sardars* or *mistries* or jobbers. They recruit the workers needed by the mill. The labourers wanting employment have to approach them. It is on their recommendation that labourers are promoted. These *sardars* or jobbers sometimes perform other functions also, such as supervising the labourers at work and looking after the machinery etc.

But this method of recruitment suffers from a number of defects such as bribery and corruption. The labourers have to pay something to the jobbers for getting a job and for retaining it. In this way, the wages of the labourers which are already low, are further reduced. It makes the labourers inefficient. It also results in a larger turn over of labour in the industries giving more chances to jobbers to earn bribes. Hence, abolition of this system was recommended by the Royal Commission on Labour.



2. Another method is that of contractors who are attached to the various undertakings such as mining industries, and railways etc. The employers find this method very convenient because a regular supply of labour is ensured and they have not to bother about this. But this method is no less corrupted and defective. The employers escape most of the provisions of labour laws. It also leads to the evil of sweated labour. The contractors make the labourers overwork in order to make a large amount of money for themselves. Through contractors, the employers are able to pay the lowest wages to the labourers and exploit them in other ways also. Therefore, such a bad system should be done away with.

3. Some mills employ labour officers for the recruitment of labourers. For example, jute mills have appointed labour-officers in charge of a Labour Bureau. This is a reformed method and should replace the jobber and the contractor. But in some factories such as jute mills, the jobbers are there and the labour officers serve only as a screen.

In Madura Mills & Co., the management informs the labour union about the vacancies occurring in their mills. Some other mills follow the practice of recruiting their workers through the employment exchanges.

*Employment Exchanges.*—They were started by the Government of India for providing employment to demobilised persons from armed forces. Now, they are expected to help all unemployed persons in getting jobs. The Government and some private employers also make their recruitments through them. Now, there is a great necessity of extending the activities of the employment exchanges. Their number should also be increased and there should be at least one employment exchange in every industrial centre. Representatives of both, the employers as well as the workers should be associated with them. In Japan also, they were organised to remove similar defects.

In 1952, the Government of India appointed the Shiva Rao Committee. Its report came out in 1954 and it contained the following recommendations :—

(a) The organisation of employment exchanges should be developed into a full-fledged national service on a permanent basis.

(b) This organisation should perform a number of functions such as registration of all applicants, selecting and referring suitable applicants to employers, maintaining placement records, collecting information regarding employment opportunities and making such information available to workers etc.

(c) All departments, Government and semi-government should recruit their staff through this organisation.

(d) All those concerns which execute government contracts, or in which the government is holding a part of the stock, or to whom the government grants, subsidies or any other aid, should be required to recruit their employees through this organisation.

For the proper economic development of a country, an efficient organisation of employment exchanges is essential. With the help of such an organisation, man power resources can be better utilized and national productivity can be raised.

### **Efficiency of Indian Labour.**

The writers on Indian Economics always mention about the inefficiency of Indian labour. Whenever, its efficiency has been measured with that of the western workers, it has been found to be inferior. Sir Alexander MacRobert considered an English worker four times more efficient than the Indian labourer. In 1926-27, the conclusions of Tariff Board on the Cotton Textile Industry were that a worker attended to 240 spindles in Japan, about 600 spindles in U. K., 1120 spindles in U. S. A. and only 180 spindles in India. Besides his less efficiency, there are other causes also for the lower output of the Indian labourer. Very often, the plants and machines used for production are out of date and management is inefficient. According to the Industrial Commission, the wage-costs are higher in India inspite of the lower wages paid to the workers. The causes of the inefficiency of the Indian labour are described below :—

1. *India's climate unsuitable for hard work.*—Our country's climate is unsuitable for hard and sustained work. In cold countries like Great Britain, the workers can go on working continuously without getting tired and fatigued.

2. *Poor physique of the Indian labourers.*—Owing to their poor health, the Indian labourers are not able to put in much work. They are generally poor in health owing to a number of causes such as their unsatisfactory diet, insanitary and dirty



houses and absurdly low standard of living. The labourer has to live in one room with his wife, children and parents etc. He can not possibly get any sound sleep or sufficient physical and mental rest. How can he be efficient in his work ?

3. *Bad housing conditions.*—Another cause of their inefficiency is that they live in horrible slums and *bastees*. “Good houses mean the possibility of home life, happiness and health : bad houses spell squalor, drink, diseases, immortality, crime and in the end demand hospitals, prisons and asylums”.

4. *Ignorance and illiteracy.*—The Indian labourers hardly get any opportunity for education. They lack both general education as well as technical training. They do not have much skill in handling the machinery as the workers possess in the western countries.

5. The factories are generally overcrowded and congested in our country. It is in these horrible and appalling conditions that the labourers have to work. Such unfavourable conditions are not conducive to efficient work. The Indian employers pay no heed to the important factors in labour productivity such as percentage of humidity, the temperature, the lighting, spacing in the factory, the condition of the air, and the amount of fibre or other materials floating in the air, noise and cleanliness in the factory.

6. *Migratory character of Indian labour.*—In advanced countries industrial labour forms a separate class from the agricultural labour. In our country, most of the industrial labourers are agriculturists. They come to cities in slack season in search of employment. As they have their home and land in the village, they try to go back to their villages as often as they can. They cannot be efficient in their work as they do not stick to it permanently. It results in a large labour turnover in the factories. Another result of this is a large percentage of absenteeism leading to disorganisation of factory work. Of course, their migration to villages does some good to them, As pointed out by the Royal Commission, “the village home is a refuge and security in sickness and in maternity, in strikes and in lockouts, in unemployment and in old age.” Through his occasional visits to the village, the worker gets a cheap holiday in better surroundings and it helps to improve his health and efficiency.

7. *Large labour turnover.* Generally, the Indian labourers are in the habit of changing the factory as often as they can. In addition to his migratory habit, it also results in a large labour turnover in the factories. When some labourers leave a factory, the management has to look for new workers who may be inexperienced or entirely new to the work. Such labour turnovers are harmful for the machines and materials. They also result in a smaller average productivity.

8. *Poor quality of machinery and implements.* In Indian factories, the machinery and implements are generally inferior and out-of-date. It also adds to the inefficiency of the worker.

9. *Poor planning and inferior raw materials.* The Indian management are not generally very efficient in their organisation. They are not very careful about the quality of raw materials used in their factory. These things also lead to low productivity of our labour. Thus, "the Indian worker alone is not to be held responsible for his low efficiency. He is often the victim of conditions over most of which he has no control."

### Measures for removing inefficiency.

The efficiency of Indian labour can be improved if an all-out effort is made by the employers and the Government. The housing conditions should be improved. Slums should be destroyed and clean and properly ventilated houses should be provided to our workers. Their diet should be improved and they should be provided with proper medical facilities. Arrangements should be made to impart general and technical education to our workers. Provision should be made for security of service, leave with pay, maternity benefits, recreations, tea-shops and canteens etc. The Government of India has passed several acts with a view to improving the working conditions of the labourers. Some of these acts are Factory acts, the Minimum Wages Act, the Provident Fund Act, the Employees State Insurance Scheme etc. In addition to this, there is also the imperative need of improving the efficiency of the management as well. Concerted efforts should be made by the Government, the employers and the labour leaders to bring about an improvement in the efficiency and the working conditions of the workers. Some organisations should be set up to study productivity of labour and to suggest ways



and means of improving it. Even if rationalisation is to be carried out, it should be managed in such a way that there is no large-scale unemployment and the productivity of labour is increased in the long run.

*Legislation in India for the Welfare of Labour.* In order to earn the maximum profits, the employers always want to make the labourers work for long hours on low wages. He does not want to provide him comfort and safety as it adds to his cost of production. For the same reason, he is not willing to give any leave with pay or provide any compensation for injury or death in the course of the work. For certain jobs, he wants to employ only women and children because he has to pay less wages to them. In order to protect the interests of the labourers as well as to improve their conditions, the state has made a number of laws from time to time. Labourers are human beings and on humanitarian, social and economic grounds, he needs to be helped from his exploitation by the employers. Moreover his efficiency and productivity affects the production of the national wealth and cost of production. He should be provided with reasonable comforts of life in the factory and outside. He should have enough time for rest and have fair amount of safety in his work. In order to provide some facilities to the labourers, the Government has passed a number of Factory Acts, the Mining Labour Acts, the Plantation Labour Acts, Payment of Wages Act, Workmen's Compensation Acts and Maternity Benefit Acts. These acts can be better studied in three periods viz. (1) Period before the World War I, (2) Period between the two World Wars and (3) the period after the World War II.

*Period before the World War I.* The first labour legislation was passed in 1863. It regulated the system of recruitment of labour in the tea gardens. It was followed by other acts passed in 1865, 1870 and 1873 all dealing with labour in tea gardens. Next important legislation in this direction was the first Factory Act of 1881. According to this act, children below seven years of age could not be employed at all and those between 7 and 12 years of age were not to work for more than 9 hours a day with a hour's rest and 4 holidays per month. This act could not be enforced properly. The second Factory Act was passed after ten years. According to this, children between 9 and 14 were not to work for more than

7 hours a day and women workers were to be employed only between the 5 A. M. and 8 P. M. Women's hours of work were restricted to 11 hours a day with one and half hours daily rest. Men were to be given half hour's daily rest and one holiday per week. After 20 years, the third Factory Act was passed in 1911. According to this, the hours of work for children were reduced to 6 and for adult workers to 12 hours a day with a daily rest of half an hour. The first Indian Mines Act was passed in 1901.

*Period between the First and Second World Wars.* Many labour laws were passed during this period. The Fourth Factory Act was passed in 1922. According to these measures, the minimum age of the children was raised to 12. Children between 12 and 15 were not to work more than 6 hours a day with half hour interval after 4 hours of work. The adult male workers could work 11 hours a day with one hour's rest and maximum of 60 hours a week. Women and children could not be employed at all in certain dangerous processes.

As a result of the recommendations of the Royal Commission, the next factory act was passed in 1934. By this act, the hours of work for children were reduced to 5 per day. For adults, the hours of work were reduced to 10 per day with a maximum of 54 hours a week. The only exceptions were the factories supplying daily necessities which could work 56 hours a week. and the seasonal factories could work 11 hours a day and 60 hours a week. Factories were required to provide drinking water and first-aid-boxes and those employing 50 or more women, were also to provide cretches.

During this period, some other laws were passed to deal with the conditions prevailing in other industries. For example, the Indian Mines Act was passed. According to this, children below 13 were not to be employed in coal mines. Employment of women underground was prohibited. For adults, the hours of work were fixed at 60 per week above ground and 54 underground. Later on, by an amendment of this act in 1935, the daily hours of work were reduced to 9 for under ground work. Children under 15 years can not be employed in mines.

For plantations, the Tea Districts Emigrant Labour Act was passed in 1932. By this act, a Controller of Emigrant Labour in Assam was appointed. This officer was to look



after the interests of the tea garden workers. The workers were given the right of having repatriation at the expense of the employers after 3 years' service or earlier in case of ill-health. Also, the recruitment of these workers was to be done only by the approved and licensed persons.

During this period, some other laws were passed for the benefit of the working class people. For example, the Payment of Wages Act was passed in 1936 to deal with the abuses prevalent in regard to the payment of wages. According to this Act, the maximum wage period was fixed at one month. Wages must be paid within 7 days from the date of expiry of the month in establishments employing less than 1000 persons and within 10 days in bigger establishments. It laid down the particular cases in which deductions could be made from wages or fines could be imposed on workers. Such deductions were not to exceed half an anna in the rupee and the amount collected from them must be spent on the labour welfare activities.

Workmen's Compensation Acts were passed in 1923, 1926, 1929, 1931 and 1933. These acts fixed the rates of compensation to be paid to the workers in cases of temporary disablement, permanent disablement and death. Labourers getting a salary of less than Rs. 10 per month were to be paid Rs. 700/- in case of permanent disablement, Rs. 500/- in case of death and a month and half's wages for temporary disablement. There has been appointed a Commissioner for Workmen's Compensation. In case of death or an accident, the labour or dependents can appeal to him if the employer is not prepared to pay the proper compensation. In several states, Maternity Benefit Acts were passed to ensure the payment of a cash amount to women workers a few weeks before and after child-birth.

### **Period after the Second World War.**

During the post war period, a number of labour acts have been passed. Some of these acts are the Industrial Disputes Act of 1947, the Minimum Wages Act of 1948, the Employees' State Insurance Act of 1948, the Industrial Employment Act of 1946, the Factory Acts of 1949 and 1952 and the Plantation Labour Act of 1951.

In 1946, the previous Factory Act was amended. By this amendment, hours of work were reduced to 8 per day or 48

hours per week for perennial factories and 54 hours for seasonal factories. In 1948, a comprehensive Factory Act was passed. By this Act, the employment of children below 14 years was prohibited and for the children between 14 and 15, the hours of work were reduced to  $4\frac{1}{2}$  hours per day. For adults, the hours of work were reduced to 48 per week. They were to be granted half an hour's rest after 5 hours of work. In addition to the weekly holidays, they were to be allowed leave on full pay at the rate of one day for every 20 days of work after a year's service. The limit of overtime work has been fixed for a day and a quarter and double the amount of normal wages has to be paid for this work.

According to this Act, Welfare Officers are to be appointed in factories employing 500 or more workers. Every factory employing 250 or more persons must have a canteen. The new factories have to get themselves registered. The above Act applies to all factories employing 10 or more persons and using power. It also applies to those factories which do not use power and employ 20 or more persons.

In 1949, a new Mines Act was passed in fixing the working hours in coal mines at 48 hours per week. The labourers could work 9 hours per day above the ground and 8 hours per day under the ground. The overtime work has to be paid at  $1\frac{1}{2}$  times the normal rate for work underground. Another act was passed in 1952 in regard to the employment and conditions of work in coal mines. The Coal Mines Labour Welfare Fund Act has also been passed by the Government. This Act has levied a cess on coal. The income from this cess is to be utilized for constructing houses and providing other facilities to workers in coal mines. By Coal Mines Provident Fund Act, provident fund facility has been provided to workers. The workers are to contribute one anna per rupee of their basic pay and an equal amount is to be contributed by the employer. By the Plantation Labour Act of 1951, the tea garden workers have been provided some facilities such as supply of drinking water, canteens and cretches, medical and educational facilities, hours of work, and weekly holidays etc.

The Union and State Governments and some broadminded employers have provided means of recreation, canteens, sanitary and medical facilities, transport arrangements and housing facilities. These facilities will enable the workers to be



in healthy and congenial surroundings, and will help to improve their health and normal life. For example, the Bombay Government has opened 50 welfare centres where facilities for games and sports, and recreation are provided. As laid down by the Factory Act, the employers have to provide canteens, cretches and drinking water etc. There is also the proposal to have Labour Welfare Fund, constituted of fines collected from employees under the Payment of Wages Act and Minimum Wages Act, all unpaid accumulations in the shape of unpaid wages, bonus or gratuities and any other voluntary donations. The management of this fund would be entrusted to a Board composed of equal number of representatives of workers and employees and any other members nominated by the government.

### **Fixing of Minimum Wages and Providing of Social Security.**

In a large number of industries, the labourers were paid very low wages and they had no organisation of their own. Even if some trade unions were formed by them, they were very loose organisations and could do no collective bargaining. Therefore, the government had to interfere and helped in the fixing of minimum wages in cases of large number of industries. The question of fixing of minimum was taken up several times but it did not materialise till the end of the Second World War. By now, the minimum wages have been fixed in most of the big industries and in some of the medium-sized and small scale industries. It has been done mostly under two Acts viz. The Industrial Disputes Act of 1947 and Minimum Wages Act of 1948. According to the former act, Industrial Tribunals were set up to settle the industrial disputes. These tribunals decided the various types of industrial disputes and fixed up the minimum wages for the major industries.

*The Minimum Wages Act of 1948.* This Act helped in the fixing of minimum wages in certain selected industries where workers were getting very low wages on account of their weak trade union organisations. This Act applies to several industries such as tea plantations, oil mills, rice mills, flour mills, motor transport, tanneries and agriculture. This Act applies to small industries and only to plantations and agriculture. Industries employing less than 1000 workers are not within the scope of this Act. The minimum wages are to be fixed after

three years in agriculture and after two years in other industries. But this period has now been extended.

*Fixing of minimum wages.* The State Government appoints a committee which makes proposals about the minimum wages. These proposals are then published in the Gazette and come into force after 3 months of their publication. These wages remain in force for five years. On the advice of an advisory committee they are then revised. There may also be appointed a Central Advisory Board for advising the State and the Central Governments in the matters of fixation and revision of minimum wages. All these Committees and Boards are to consist of an equal number of representatives of employers and workers of each industry and some independent members say about one third of the total number of members. The appointment of all these members is to be done by the government which will also nominate a Chairman from among the independent members. The minimum wages are to be fixed either for time or piece work. Different minimum rates have to be fixed for adults, women, children and apprentices or for different classes of workers or for different localities. The minimum wage can be fixed in cash or kind. In this way, the Act lays down no fixed principles for minimum wages. It also does not apply to large-scale industries excepting plantations. It is also not applicable to industries employing less than 1000 persons. Hence it is applicable to minor, medium-sized and small industries. The central government is now setting up separate Wage Boards for individual industries.

*Principles for fixing minimum Wages.* According to some, the minimum wages of labourers should not be less than a 'living wage'. A living wage is considered to be equal to "a sum sufficient for the normal and reasonable needs of the average worker with an average family in the locality." The principle appears to be quite simple and reasonable but quite difficult in its practical application because it is quite vague. For example, what are the normal and reasonable needs of a labourer?

Who is an average worker? What is the size of an average working class family?

The employers' idea is that in fixing minimum wage, the capacity of the industry should be taken into consideration. This is again quite difficult to find it out. The profits earned by



the industry as shown in the balance sheet, are often misleading because they are generally manipulated figures. Owing to these practical difficulties, minimum wages have to be fixed on the basis of existing rates paid by the best employers in the industry. In all times or at all places wage can not be fixed according to one particular principle. Different principles have to be adopted in different countries and on different occasions.

In our country, the report of the Central Pay Commission was the main basis for fixing the minimum wages. The Commission found it difficult to fix the minimum wages on the principle of living wages, and therefore fixed the minimum wages in accordance with the normal wages prevailing in the country. It recommended the minimum basic wage of Rs. 30/- per month. The adjudicators always attach much importance to these recommendations of the Commission though they have to take into consideration the capacity of the industry to pay. Most of the Committees appointed under the Minimum Wages Act, have emphasised the principle given by the Fair Wage Committee that "the minimum wages must provide not merely for the bare sustenance of life, but also for the preservation of the efficiency of the worker, by providing some measures of education, medical requirements and amenities." But the minimum wages fixed on this basis are generally beyond the paying capacity of most of the industries and hence they have to be lowered.

### **Effects of the fixation of minimum wages.**

1. The common criticism against the fixation of minimum wage is that it would raise the cost of production and check the industrial progress of the country. If the minimum wages are fixed at a high level, the employers would get rid of the less efficient workers and it will lead to unemployment.

2. If the second principle (capacity of the industry to pay) is taken into consideration while fixing the minimum wage, the industry will not be effected adversely.

3. On the other hand, if the wages are fixed at a high level, it would improve the efficiency of the workers, because their standard of life is improved and they are stimulated to increase their output. The employers are also forced to make improvement in their factories.

4. In our country, the experience has been that a rise in wages generally leads to absenteeism among workers and no improvement in their productivity.

*Fair Wages.* The Industrial Truce Resolution of 1947 made out a case for the payment of fair wages to labour. A Fair Wages Committee was appointed in 1948 and a Fair Wages Bill was introduced into the Parliament in 1953. According to this Bill, the minimum wage must provide not only for the bare sustenance of life but also for the preservation of the efficiency of the worker by providing some education, medical requirements and amenities. The living wage "represent on the other hand, a standard of living which provides not merely for a bare physical sustenance but for the maintenance of health and decency, a measure of frugal comfort and some insurance against the more important misfortunes of life". In advanced countries, an effort is made to pay a living wage to the worker. But in India, it is not practicable so far because our national income is very low. Therefore, here we have to think of a compromise and pay only a fair wage which is generally higher than the minimum wage and lower than the living wage. In fixing this wage (fair wage) several factors such as the capacity of the industry to pay, the level of the national income, the prevailing rates of wages and the productivity of labour etc., have to be taken into consideration.

### **Sickness Insurance.**

In the Western countries, governments have started the policy of insuring workers against sickness. The workers are given free medical treatment and cash payments during sickness in return for a small weekly or monthly payment. Compulsory insurance against sickness was first started in Germany in 1883 and England adopted it in 1911. More than 30 countries had adopted such schemes by 1936.

In our country, there is an imperative need of such a scheme because the Indian workers receive very low wages and during periods of sickness, they need medical help as well as some cash payments for their normal daily expenses. It can be done through a compulsory scheme of sickness insurance. Some enlightened employers like the Tata Iron Steel Co., and the Angus Jute Mills etc., are providing free medical aid to their workers. There are some others also who grant sick leave on full pay



upto a certain number of days. But only a small percentage of workers are enjoying these advantages.

The question of compulsory sickness insurance was considered several times by the Government. Ultimately, they appointed Prof. Adarkar during the period of Second World War. His report came out in 1944 and its main features were :—

(a) Three groups of industries viz., Textiles, Engineering and Minerals were to be covered.

(b) Only workers getting less than Rs. 200/- P.M. and below 60 years of age, were to be covered by this scheme.

(c) Workers with wages more than a rupee per day, were to pay 12 annas per month, workers getting between 8 annas and one rupee were to pay 8 annas per month and others who get less than 8 annas per day, were to pay 4 annas per month. The employers' contribution was fixed at Rs. 1—4 per worker per month.

(d) The workers were to be given free medical treatment. Cash payments were also to be made to them from the 4th day of sickness at the rate of half of their contributions, upto 90 days for permanent workers and 45 days for temporary workers.

Two experts from ILO examined Prof. Adarkar's scheme and recommended the integration of sickness insurance with workmen's compensation and maternity benefits. On the recommendations of the Government, the Parliament passed the Employees' State Insurance Act in 1948.

*Employees' State Insurance Act.* By this Act, provision has been made for sickness, maternity and disablement and dependents, benefits for all industrial workers. This Act applies to all those factories which have employed 20 or more persons and use power. It does not apply to those employees whose salary is more than Rs. 400/- p.m. Seasonal factories also do not come under its operation. The contribution of each worker is in accordance with his remuneration as laid down in the following table :—

| Group of Employees                            | Employees' contribution | Employers' contribution | Total  |
|---|-------------------------|-------------------------|--------|
| 1. Workers with daily wages less than Re. 1/- | Nil                     | 0—7 —0                  | 0— 7—0 |

|   |        |        |        |
|---|--------|--------|--------|
| 2. Workers getting between<br>Re. 1 and Rs. 1/8 per day | 0—2 —0 | 0—7 —0 | 0— 9—0 |
| 3. Workers getting between<br>Rs. 1/8 and Rs. 2/-       | 0—4 —0 | 0—8 —0 | 0—12—0 |
| 4. Workers getting between<br>Rs. 2/- and Rs. 3/-       | 0— 6—0 | 0—12—0 | 1— 2—0 |
| 5. Workers getting between<br>Rs. 3/- and Rs. 4/-       | 0— 8—0 | 1—0 —0 | 1— 8—0 |
| 6. Workers getting between<br>Rs. 4/- and Rs. 6/-       | 0—11—0 | 1— 6—0 | 2— 1—0 |
| 7. Workers getting between<br>Rs. 6/- and Rs. 8/-       | 0—15—0 | 1—14—0 | 2—13—0 |
| 8. Workers getting more<br>than Rs. 8/- daily           | 1— 4—0 | 2— 8—0 | 3—12—0 |

The workers will receive the following benefits in return for the above payments :—

(a) Free medical treatment from the first day of sickness. The authorities can extend this benefit to the family members of the worker.

(b) Cash payment to be made from the third day of sickness at the rate of one-half of the average daily wages. This payment can be made upto a maximum of 56 days in one year. But only those workers who have made contributions for a period of 6 months, are to be given cash payments.

(c) *Disablement benefit.* Workers who are disable partially or totally, are to be given free medical treatment and cash payments. If a worker dies as a result of an accident in the factory, his dependents are to be given a pension.

(d) *Maternity benefits.* Women workers are to be paid annas 12 per day for a period of 12 weeks. This payment is to start not more than 6 weeks before the period of confinement.

This scheme is to be under administration of a Corporation known as the Employees' State Insurance Corporation. This body consists of the representatives of the Central and the State Governments, employers and employees, medical profession and parliament. There is also a chief executive officer of the Corporation known as the Director-General appointed by the Central Government.



The State Governments, who will run the health services, will bear only one third of the cost of medical care. The remaining two-thirds will be borne by the Corporation. During the Second Plan period, the State Governments' share has been reduced to only one-eighth.

It was difficult to put the scheme into operation simultaneously in all parts of the country. It was first introduced in Delhi and Kanpur in February 1952 and was extended to Punjab in August, 1952. In 1953, it was extended to Greater Bombay and Bangalore and by January 1955, in Madras, Calcutta, Nagpur and Jabbalpore. About 2.5 million workers of perennial factories are expected to be covered by this scheme. From the very beginning, when this scheme was enforced in Delhi and Kanpur, employers all over the country were required to pay their contributions even if the scheme had not been introduced in their areas.

From the very beginning, there have been difficulties in the enforcement of this scheme. It has been a difficult task to come to an agreement with the doctors in regard to their rates. The Corporation offered to pay a capitation fee of Rs. 6/8/- per insured worker to the doctors. But the latter considered this insufficient to cover their expenses. The workers of those areas where this scheme was introduced for the first time, opposed it because these medical facilities were being provided to them free before this. Now, they were required to contribute for the same. Moreover, no extra facilities such as the medical aid for their children was to be provided in the initial stages and no arrangements were made for the hospitalisation of workers at Delhi and Kanpur.

The Indian Scheme compares favourably with the National Insurance Scheme of Great Britain. Under the British Scheme contributions and profits are to be paid and received at a flat rate but the Indian Scheme has graded them. The British Scheme now applies to every citizen and it has taken nearly 4 decades for so much expansion. It is expected that the Indian Scheme will be able to cover more than 25 lakh workers in 4 or 5 years, and the scheme can be extended to all types of workers in due course. At present, this scheme covers about 12.35 lakh factory workers in 64 centres in 10 States. At the end of the Second Plan, the scheme is expected to cover 80 lakh workers and their family members. In the 1958 budget, a



special provision of Rs. 4.25 crores was made to extend the medical facilities to the families of the workers. The employers' contribution is also to be increased to  $4\frac{1}{2}$  per cent which is the maximum limit under the Act. One good result of the Employees' State Insurance Scheme has been a decline in absenteeism due to sickness.

### **Employees' Provident Fund Act.**

The industrial workers mostly receive low wages and their joint family system has also broken. Therefore, they are not able to save and have to pass a miserable life in the old age. It is for this reason, two members of the Royal Commission on Labour pointed out the necessity of introducing the old age pensions. Some industries and concerns such as a few cotton mills of Bombay and the railways had made provisions for old age through the scheme of contributory provident fund. The workers of these concerns generally contributed  $6\frac{1}{4}$  per cent of their wages or salaries on voluntary or compulsory basis and an equal amount was contributed by the employers. A few factories also paid gratuities.

Only a very small percentage of workers was covered by these schemes. The low-paid staff members who needed such a help the most, were excluded from such schemes. Moreover, such schemes generally did not have much of rules and regulations and they mostly depended on the sweet will of the management. Therefore, the Government of India passed the Employee's Provident Fund Act in 1952.

In the beginning, this Act was applied to six big industries viz., Cement, Cigarette, Engineering, Iron and Steel, Paper and Textiles (cotton, jute and silk). These industries employed about 16 lakh workers which constituted about 75 per cent of the factory employees. Now, its scope has been extended to 26 industries, five types of plantations, four classes of mines and newspaper establishments. Its benefit has now been extended to 24 lakhs of workers. About 1950 factories are covered by this Act. Out of these, 532 factories have been allowed to run their own schemes of provident fund provided they are equally beneficial to the workers. All concerns in these industries, which are more than 3 years' old and which employ more than 50 workers, have come under this scheme. New concerns are to be exempted for a period of three years. Provident



fund deductions are to be made from the wages of workers at the rate of  $6\frac{1}{4}$  per cent. Both, the basic wages and dearness allowance are to be taken into account while calculating the contributions. An equal amount is to be contributed by the employers. All provident fund collections are to be invested in Government securities. Members are allowed advances from the provident fund for the payment of life insurance premia. They can also be given non-repayable loans from their own accumulations for the construction or purchase of a house.

The main criticism against this Act is that it is likely to put a great strain on the finances of industries. Employers' contribution will have to be added to the cost of production. But at the same time, it is not so easy to pass it on to the consumer in the form of higher prices. Yet we cannot belittle the importance of such a good scheme. The Provident Fund Scheme is a sound measure of social security. In addition to this, it forces the workers of low incomes to make a compulsory saving even from their meagre incomes. Otherwise, poor workers are not able to save anything from their small incomes and they find themselves stranded in their old age.

### **Labour Welfare Measures and their effects.**

The various laws and measures discussed in this chapter are for the physical, moral, intellectual and economic betterment and general welfare of the workers. Most of these labour welfare laws have been passed by the Government of India from time to time. Besides making this labour legislation, the Government did not undertake any other welfare activities in the past. It is only in the recent years that they have started doing something in this direction.

During the period of the Second World War, schemes of welfare were launched in the Ordnance and other factories to increase the workers' productive efficiency and to keep up their morale. In 1944, a Coal Mines Labour Welfare Fund was started to improve the condition of coal-miners. In the same way, Mica Mines Welfare Fund was also started. These were followed by the Coal Mines Labour Welfare Fund Act of 1946, the Mica Mines Labour Welfare Fund of 1948, the U. P. Sugar and Power Alcohol Industries Labour Welfare and Development Fund Act of 1950 and the Bombay Labour Welfare Fund

Act of 1953 etc. All these funds are meant to provide housing and other facilities to the workers of these industries. Food and tea canteens have been started in the Government undertakings. Private undertakings also are starting Welfare Trust Funds to which Government also contributes. The Government of India has granted loans and grants to the State Governments and the employers and has constructed tenements for workers under the Subsidised Industrial Housing Scheme.

Before the Second World War, the State Governments did not do much for labour welfare beyond enforcing the Central Acts. It was in 1937-38 when the popular ministries were formed in the provinces that some beginning was made in this direction. This work was continued in the war and post-war period. Various measures making provision of sports, entertainments, medical aid and education for the workers and their families were undertaken by the Governments of U. P., Bombay and Bengal. But so far only a small part of the problem has been tackled and the State Governments have to do a lot more.

Some employers such as Tata Iron and Steel Company, Buckingham and Carnatic Mills of Madras, Delhi Cloth and General Mills, British India Corporation, J. K. Industries of Kanpur, Empress Mills of Nagpur, Indian Jute Mills Association etc., are quite enlightened and broad-minded. They are providing medical aid, educational and recreational facilities, reading rooms, sports, co-operative societies, housing accommodation, canteens and such other amenities to their workers. But only a few good employers look to the betterment of their employees and as such only a small number of workers are receiving these benefits. Most of the employers are indifferent to the welfare of workers and they consider it as a useless expenditure. They fail to understand that if they adopt welfare measures for their workers, they will be more than repaid in the form of increased productivity.

The welfare activities have been undertaken only by a few labour associations such as Ahmedabad Textile Labour Association, the Railwaymen's Union, Mazdoor Sabha of Kanpur etc. The labour unions can do quite a lot in this direction. For example, they can organise co-operative credit societies and stores for the workers. Some social organisations such as Bombay Social Service League, Servants of India Society and



Y. M. C. A. etc., are also doing something for the welfare of labour on humanitarian grounds.

### Questions and Projects.

1. What methods have been adopted to get a supply of labour? What are the defects in these methods?
2. What are employment exchanges? How are they helpful in getting a supply of proper type of men?
3. Explain the various causes of the inefficiency of Indian labour. What measures can be adopted to remove this inefficiency?
4. Do you think that the productivity of labour has declined in recent years? What has led to this decline?
5. What steps have been taken for the protection and improvement of industrial labour in India?
6. Describe the legislative measures adopted before the First World War to promote the welfare of labour.
7. Prepare a brochure on the history of factory legislation in India during the last 40 years. Mention the various industries which have been effected and also classify these laws into several categories from the point of view of the welfare of labour. In the end, give your own idea how far has the condition of labour been improved.
8. Do you think that the policy of the National Government of the country is in keeping with its professions of making a socialistic society in the country?
9. Discuss the causes leading to the fixing of minimum wages in India. What have been the results of the fixation of minimum wages?
10. Describe the main features of the Minimum Wages Act of 1948. What principles have been followed in fixing minimum wages in India?
11. Examine the problem of a fair wage rate in any organised industry of our country.
12. Explain the necessity of a scheme of sickness insurance in India. Discuss the main clauses of the Employees' State Insurance Act.

13. What benefits are the workers getting as a result of the Employees' State Insurance Act? How far is this measure likely to remedy the wretched conditions of the working class people?
  14. Make a first hand or on the spot study of the biggest industry of your town or your district. See for yourself the working conditions and residential locality of the labourers and find out what amenities have been provided to the employees. You can also know if those amenities have been provided as a result of the factory laws or they are a goodwill gesture from the side of the employer. Also try to find out what sort of relations prevail between the management and the labour. Put down all the results of your investigations and study in the form of a pamphlet.
  15. Describe the main provisions of the Employees Provident Fund Act and examine its effects on Indian industries.
  16. What amenities and comforts are the Central and State Governments providing to the labourers besides the various laws made by them?
  17. Give examples of a few enlightened employers in India. What are they doing for the betterment of their employees?
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## CHAPTER XIV.

### Labour Organisations and Industrial Relations

#### Growth of the Trade Union Movement.

Industrialisation of our country had started about a century back. But the growth of trade unions started much later. The first move in this direction was made by Mr. Lokhande of Bombay who started the Bombay Millhand's Association in 1890. Several other attempts were made without any permanent results. But the real development of trade unions started after the First World War. In 1917, there was much labour unrest because the prices and costs of living had gone up owing to the war, while wages of workers lagged behind. The rise of communism in Russia and the growth of political movements in our own country also encouraged the Indian workers to unite into trade unions.

Mr. Wadia organised the first trade union in Madras in 1918. It was followed by a number of trade unions in the different parts of the country. But these organisations were so far a little more than strike committees consisting of a few officers and a few paying members. They were isolated bodies without any solid foundation. Attempts were made to have an organisation to co-ordinate their activities. The result was the setting up of the All-India Trade Union Congress which was a national federation of unions.

By the year 1928-29, Communists brought this organisation under their control. The moderates, therefore formed a separate body known as All-India Trade Union Federation under the leadership of Mr. N. M. Joshi. In 1940, the two groups made an agreement for uniting. During the Second World War period, dissensions started again in the Trade Union Organisation. Mr. M. N. Roy formed a new body known as the Trade Union Federation which gave an all out support to the war effort. But the main body (*i.e.*) the Trade Union Congress followed a policy of neutrality.

After the war, the labour leaders of the Indian National Congress formed a new labour organisation known as the All-

**India National Trade Union Congress.** Its main object was to remove the Communist influence from the workers. After a little while when the Socialists seceded from the Indian National Congress, they started their own labour federation known as Hind Mazdoor Sabha. Another federal organisation known as United Trade Union Congress has also been started by some moderate labour leaders.

### **Present Position of the Trade Union Movement.**

The progress of the Trade Union Movement in India has been quite remarkable. In 1927-28, the number of registered unions was only 29 with a total membership of 1 lakh. Gradually, the movement made progress, and the number of unions increased to 5865 with a membership of more than 18 lakh workers in 1953-54. After the Second World War, the movement has made rapid progress and has spread even to clerks and lowest grade employees of banks and insurance companies. The percentage of its women members had increased from 1·5 in 1927-32 to 6·6 in 1949-50. The largest number of unions have been organised in the cotton textile industry. The next in order are banking, insurance, electricity, gas, water and sanitary services, railways etc. The States of West Bengal, Bombay and U.P. which are industrially advanced, have about 64 p. c. of labour unions with a 68 p.c. of the total membership. Most of the unions have a small membership. Quite a large number of unions have a membership below 50. About 59 p. c. of the unions have a membership below 300. The unions generally spend a very small portion of their funds on betterment activities such as payment of compensation and benefits to their members. As mentioned above, the movement has come to be divided into several central organisations viz. :—

(a) The Indian National Trade Union Congress with 913 unions affiliated to it with a membership of 12·7 lakhs.

(b) The All India Trade Union Congress with 736 unions affiliated to it with a membership of 7·6 lakhs.

(c) The Hind Mazdoor Sabha with 574 unions with a membership of 8·0 lakhs.

(d) The United Trade Union Congress with 201 unions affiliated to it with a membership of 2·2 lakhs.



We give below the statistics of the various labour organisations.

### Membership of All-India Organisations.

|                                       | Number of unions affiliated |       |       | Membership |           |           |
|---------------------------------------|-----------------------------|-------|-------|------------|-----------|-----------|
|                                       | 1954                        | 1955  | 1956  | 1954       | 1955      | 1956.     |
| Indian National Trade Union Congress. | 606                         | 604   | 617   | 8,88,291   | 9,30,968  | 9,71,740  |
| Hind Mazdoor Sabha,                   | 331                         | 157   | 119   | 4,92,362   | 2,11,315  | 2,03,798  |
| All India Trade Union Congress.       | 925                         | 481   | 558   | —          | 3,06,963  | 4,22,851  |
| United Trades Union Congress.         | 169                         | 228   | 237   | —          | 1,95,242  | 1,59,109  |
| Total                                 | 2,031                       | 1,470 | 1,531 | —          | 16,44,488 | 17,57,498 |

## Registered Trade Unions and Membership.

|  | Central Unions |          | State Unions. |           |
|--|----------------|----------|---------------|-----------|
|  | 1954-55        | 19 55-56 | 1954-55       | 1955-56   |
| Number of Unions on registers.           | 144            | 171      | 6,504         | 7,675     |
| Number of Unions submitting returns.     | 105            | 105      | 3,008         | 3,806     |
| Membership of Unions submitting returns. | 1,75,508       | 2,12,848 | 19,94,942     | 20,12,462 |

### Legal Position of the Trade Unions.

When the trade unions were started in 1918, they had no recognised rights and duties. Upto 1926, their legal position was not recognised. The necessity of legal recognition and protection of trade unions arose owing to an adverse decision of the Madras High Court which issued an injunction to restrain trade union officials from influencing the labourers to strike. The Trade Union Act was passed in 1926 so that they may be able to carry on their normal activities.

According to this Act, a trade union which fulfils certain conditions, can apply for registration. Registration is optional but a registered Trade Union will enjoy some privileges along with some obligations. A registered trade union must give its name and define its objectives. It must keep a list of its members and get its accounts audited annually. It must have a definite constitution. At least one-half of its office-bearers must be persons employed in the industry concerned. A registered trade union has the following specific rights and obligations :—

1. It must submit annual returns of its accounts to the Registrar with duly audited statements of its receipts and expenditure.
2. Its funds should be utilized for certain general purposes laid down in the Act.
3. It can not use its funds for political purposes. It can have a separate fund for political purposes on a voluntary basis.



After its being amended in 1948, the Act provided for compulsory recognition by the employers. But before recognition, the Union must be registered under the Act, all its members must be regular workers in the industry, all workers should be eligible for its membership ; and it should be representative body of all workers working in the industry or establishment. There should be some definite procedure for calling a strike in its constitution and it must not take part in illegal strike. If a Union satisfies all these conditions, only then the Labour Court would issue a certificate of compulsory recognition to the union. For unfair practices such as taking part in an irregular strike etc., on the part of the trade unions, legal recognition may be withdrawn. If the employers interfere with the rights of the workers to organise trade unions, or follow such other unfair practices, they would be fined upto Rs. 1000/-.

*The Trade Unions Bill of 1950:* The Act of 1926, which was the main basis of trade union law, was defective on many grounds. This Act created an anomaly and confusion because it allowed an employers' organisation to be regarded as a trade union. The Royal Commission on Labour had recommended a number of amendments to this Act such as :—(a) The Government should bear the audit expenses, (b) the proportion of workers in the executive of the union should be raised to two-thirds instead of one-half, (c) the Act should not make any distinction between the general fund and the fund for political purposes and (d) the unions should be allowed to start co-operative organisations of their own. Moreover, habits of collective bargaining have not developed to a sufficient extent on account of the opposition of the employers. For all these reasons, need for a comprehensive Trade Union Act, which would remove all these defects, was being felt. The Government introduced the Trade Unions Bill in the Parliament in 1950. The main features of the Bill were as follows :—(1) The Bill provides for the organisation and registration of a union which may be formed by one or more persons. (2) The ordinary members were to pay a subscription of at least 2 as. per month. (3) The number of outsiders as office-bearers in the union executive not to exceed 4 or one-fourth of the total number. (4) Union of civil servants not to appoint any outsider as an office-bearer and not to participate in any political activity. (5) A union to maintain a list of members, a register



of subscriptions and to submit annual statements of accounts to the Registrar. (6) Its funds to be spent only on purposes specified in the Bill and to maintain a separate fund for political purposes.

### **Criticism of the Bill.**

Some of the provisions of the Bill created a heated controversy. The exclusion of civil servants from the scope of ordinary Trade Unions has been seriously objected to. The clause regulating the number of outsiders in the executive of the union was also unduly restrictive. The separation of the political fund from the general fund was also severely criticised. For obtaining the certificate of compulsory recognition, a union was to satisfy very difficult conditions. Moreover, very unimportant rights were conferred on the unions. For example their representatives could have interviews with the employers and their letters were to be replied by the employers. They could collect subscriptions from their members and could hold meetings on the premises of the factory. Owing to these criticisms, the Bill had to be dropped.

*Success and Failure of the Trade Union Movement.* By now, the trade unions are not mere strike committees. They have become permanent organisations. They are able to organise strikes and lock-outs successfully. They have been able to get some important benefits for the workers. Some of them such as the Ahmedabad Textile Labour Union have started schools and hospitals etc. The movement has become fairly well stabilized and has a definite place in the life of the country.

*Its handicaps.* Owing to its internal difficulties, this movement has not been able to make much progress. Its organisation is weak and unstable on account of the following reasons :—

The membership lists of the unions are often inaccurate and the subscriptions are not regularly paid as it means some burden for a large number of workers. Their financial condition is generally weak and unsatisfactory. They are not able to pay strike benefits or unemployment and sickness benefits to their members. Very few unions are able to undertake labour welfare activities.



The trade unions are under the control of leaders, drawn from outside. The labourers are generally ignorant and illiterate and cannot find leaders from their ranks. The 'outsiders' have done some good work for the progress of the movement. But very often, they utilize the Unions for serving their political ends without caring for the interests of the workers. If the labour leaders come out of the workers themselves the movement will be stabilized. In the recent years, some leaders have sprung up from the working classes because some educated people have joined the factories.

The Indian labourers are floating and migrating. They want to visit their village homes very often or change from one factory to another. Therefore, they are not able to combine into permanent unions for the protection of their interests. It is for this reason also that the movement is led by outside leaders.

Another difficulty arises owing to the heterogeneous character of Indian labour. They have different habits and customs and speak different languages. They belong to different castes and provinces. It is difficult to unite and organise such varied elements. Moreover, the employers also try to exploit their provincial and religious sentiments to check the growth of unity among them.

The growth of several central organisations has made the workers divided in their loyalty and has stood in the way of creating a feeling of oneness amongst the workers.

Some of the labour leaders are radical and revolutionary. They are totally against the capitalistic system of society and they are out to destroy it somehow. They are very aggressive in their attitude and incite the workers to indulge in destructive activities. They do not pay much attention to labour welfare activities. As a result of this, the employers also become hostile and unsympathetic towards the Trade Unions.

### **Industrial Relations.**

The maintenance of harmonious relations is very essential for the industrial progress and economic development of a country. But in the capitalistic system of production industrial disputes do arise. They are in the form of either strikes or lockouts. **Strikes** are done by workers in order to force the employers

to meet their demands. Lockout is the closing of his factory by the employer to force workers to work on his conditions. Strikes take place much oftener than lockouts. Sometimes, workers resort to "go slow" tactics and increased absenteeism.

Before the first world war, there used to be very few strikes in Indian industries as the workers had no regular organisations and combinations. After the war, when there was rise in prices and cost of living, the trade unions were organised. There were a number of strikes in 1920-21 owing to the spread of mass-consciousness among the workers. Since then, industrial disputes have become frequent in India. Strikes by workers and lockouts on the part of employers have become a matter of common occurrence. These disputes arise owing to the grievances of the workers. The main causes of these disputes are :—

(a) *Low Wages.* In our country, the labourers are generally poorly paid. Since the last war, there has been a great rise in prices and an increase in the cost of living. In some industries, dearness allowances were begun to be paid. But the basic wages in most of the industries continue to be very low. On the whole, the rise in wages by way of dearness allowance, lags far behind the increase in price level. The result is that the workers cannot get even the bare necessities of life. This naturally leads to discontent among the workers and results in strikes.

(b) *Unsatisfactory conditions of work.* The workers have to work very often under horrible conditions. There are very little provisions for sanitation, ventilation, recreation, sports, games etc. Most of the employers do not care to improve the conditions in their factories. They turn a deaf ear to the requests and appeals of the workers and the latter therefore, resort to strikes.

(c) *Long hours of work.* The complaint of the workers is that their wages are extremely low in comparison to the amount of work they have to put in. The Government has fixed 48 hours per week but the workers want them to be still less.

(d) *Insecurity of employment.* The employers try to retrench workers on the least pretext. Sudden retrenchment exposes the workers and their families to starvation and misery. On such occasions, sometimes workers resort to strikes to



prevent sudden dismissals. At times, the employers victimise the workers who take a leading part in the strike. Such victimisation leads to a still great conflict between the labour and the capital.

(e) *Rationalisation.* In order to reduce their cost of production, the employers take to rationalisation. It results in retrenchment of some workers and consequently in a dispute between the labour and the capital.

(f) *Demand for participation in management and profit.* The employers generally pay low wages to the workers and exploit them in every way. They do not allow them to have a 'say' in the management of the company. On the other hand, the workers feel that they play the most important part in the production of goods and therefore they should be given a share in the profits and the management of the company. The employers seldom agree to such demands of the workers and therefore it leads to strikes.

(g) *Growth of Trade Unions.* The trade union movement is gaining strength in our country. It has made our workers conscious of their position and rights. The workers do not want to be at the mercy of the employers. They demand certain amenities such as free quarters, house rent allowance, medical aid, yearly bonus, etc., from the employers as a matter of right. When these rights are refused to them, they resort to strikes.

*The settlement of disputes.* Both, workers and employers are affected by industrial disputes. The workers lose their daily wages and have to suffer other privations. The employers suffer the loss of their profits. There is also the loss of national wealth and decline in national income. During the days of industrial disputes, there is no peace and harmony in the country. The government has to interfere and adopt suitable measures to maintain peaceful conditions.

After 1920, when the strikes began to occur very often, the government had to intervene. In 1929, the Government of India passed the Trades Disputes Act. According to this Act, industrial disputes were to be referred to a Court of Enquiry or a Board of Conciliation. The latter body was to bring about a conciliation between the two parties. In case of failure, it was to investigate the matter and report it to the government.



The public utility services such as railways, posts and telegraphs were put in special category from the other industries. No strike could be declared in the public utility industries without giving a 14 days' notice. General strikes or strikes for political purposes were prohibited. Though this Act remained in force pretty long but its provisions were rarely used to settle the disputes.

The Bombay Government passed some Acts in 1934 and 1938 to settle the industrial disputes through conciliation. As a result of these acts, Conciliation Officers and Conciliation Boards were appointed to bring about a settlement of disputes. A permanent Industrial Court was also set up for the settlement of disputes within a specified time. Before declaring any strike or lockout, the dispute was to be referred to these bodies. In 1938, the Government of India also passed the Trade Disputes Amendment Act, authorising the State Governments to appoint Conciliation Officers.

During the period of the Second World War, under the Defence of India Rules, the Central Government could prohibit all strikes and lockouts in essential industries and could declare an award to be binding on both the parties. After the war and particularly after the attainment of independence by the country, there were a number of strikes owing to the steep rise in prices. The number of strikes increased from 820 in 1945 to 1629 in 1946 and 1811 in 1947. Similarly, the number of workers involved rose from 7.47 lakhs in 1945 to 19.61 lakhs in 1946 and 18.40 lakhs in 1947. As the industrial disputes were increasing day-by-day, the Government therefore, passed the Industrial Disputes Act in 1947.

*The Industrial Disputes Act of 1947.* In order to prevent industrial disputes which cause dislocation of work, the Industrial Disputes Act of 1947 was passed. This Act was an improvement upon the Act of 1929, which was weak as it had not provided for compulsory arbitration of disputes.

The Act of 1947 provides for the constitution of Works Committee, the appointments of Courts of Enquiry for finding out the causes of disputes, the appointment of Conciliation Officers and Conciliation Boards to investigate and settle the industrial disputes. The Works Committee are to be formed in all factories employing more than 100 persons, having representa-



tives of the management and the workers. They are meant to settle-day-to day differences by mutual discussions. The Conciliation Officers and Conciliation Boards will try to induce both the parties to come to a settlement and then will report to the Government about their success or failure. If the dispute remains unsettled it may be referred to the industrial tribunal. In case of a public utility industry, the dispute must be referred to this body. A Conciliation Board is to be constituted of equal number of representatives of workers and employers and an independent chairman appointed by the Government. An industrial tribunal is to consist of one or two members possessing the qualifications of a High Court Judge. The Tribunal listens to both the parties and then gives its award. Its decision is binding on both the parties at least for one year. During the period of conciliation or arbitration, no strikes can be declared. Thus, this Act provides for both, the conciliation and compulsory arbitration of disputes.

In actual practice, the disputes have been mostly referred for compulsory arbitration and the Conciliation Boards were set up only in a few cases. The different industrial tribunals gave conflicting judgments on important matters and it created a great confusion in the industrial field. It is for this reason that an amending Act was passed in 1950 setting up Appellate Tribunal to hear appeals from the awards of various industrial tribunals and industrial courts etc.

Owing to 1947 Act and Industrial Truce Resolution, there were less of strikes. Their number went down to 1811 in 1947, to 1259 in 1948 and to 814 in 1950. The number of workers involved, declined from 18·41 lakhs to 7·20 lakhs during the same period. This Act provided the machinery for the solution of industrial disputes. Part of this machinery viz., Conciliation Boards could not be effective at all because the spirit of compromise was lacking in both, the employers and the employees.

*Labour Relations Bill of 1950.* Under this Bill, an elaborate machinery was proposed for the settlement of disputes. It also had provisions for certifying trade unions as a bargaining agent. Works Committees were to be established in all establishments. These committees were to maintain cordial relations for increasing production and settling disputes. In addition to the Conciliation Officers and *ad hoc* boards of conciliation of the 1947 Act, it also proposed to set up a new body known as "Standing



**Conciliation Boards".** These were to be permanent bodies for the quick settlement of disputes, avoiding the delay of setting up of *ad hoc* board. It also provided for the setting up of Labour Courts constituted of a person of the judicial and executive service. Its decisions were to be binding on both the parties. There were also to be labour tribunals and an Appellate Tribunal to hear appeals against the awards of a tribunal. This Bill was severely criticised and was not proceeded with in the parliament.

The Industrial Disputes Act of 1947, was amended in 1953. It provided for compensation to the worker at the rate of one-half of his basic wages. No worker could be retrenched without giving one month's notice. Every retrenched worker should be paid gratuity at the rate of 15 days' wages for every year of completed service.

In 1955, another bill was introduced in the Parliament to improve the employer-employee relations. It sought to introduce some change in the Industrial Disputes Act of 1947, and repeal the Industrial Disputes Act of 1950. It proposed to abolish the Labour Appellate Tribunal constituted under the Act of 1950 and proposes to set up a three-tier system of original tribunals viz., labour courts, industrial tribunals and national tribunals because the former was very expensive for the workers. Under this Bill, the appropriate Government could modify the award of a Tribunal or Labour Courts for certain reasons such as national interests or social justice. Provision was also there for voluntary reference of disputes to arbitration by the parties themselves. The employer should not introduce change in certain specific matters without giving 21 days' notice to the workmen. Punishment (even imprisonment upto six months) could be given in cases of breach of award.

The Bill also empowered the workers to take part in or object to the revision of standing orders and invested the certifying authority to look into the reasonableness or justness of standing orders or any revision thereof. Previously, an employer could not take action against a workman during the pendency of a conciliation proceeding or proceeding before a tribunal. According to this Bill, the employer could proceed against a worker in regard to any matter unconnected with the dispute. If the worker was dismissed, he was to be paid one month's wages and the matter was to be referred to the authority con-



cerned. This provision of the Bill was severely criticised. Another great defect in the Bill was that it did not provide for the recognition of Trade Unions.

Owing to the judgment of the Supreme Court given on November 27, 1956, the Government of India promulgated an ordinance which came into effect from December 1, 1956. This Ordinance provided that the workers would be entitled to retrenchment compensation when a concern is closed down. But if the closure is on account of circumstances beyond the control of the employer, the amount of compensation would be only three months' pay. In the case of construction works (buildings, bridges etc), no compensation is payable if the work is completed within two years. If the ownership is transferred, retrenchment compensation will not be payable.

*The Industrial Disputes Amendment Act of 1957.* Under this Act, there are three types of tribunals, viz., labour courts, industrial tribunals and national tribunals. This machinery has been created for the quick settlement of disputes in a just and impartial manner. The labour courts will have the jurisdiction to adjudicate on industrial disputes relating to such matters as the legality or propriety of an order passed by an employer under the standing orders, the discharge or dismissal of employees and illegality or otherwise of a strike or lockout. The matters relating to wages, hours of work, bonus, rationalisation and retrenchment will be decided by an industrial tribunal. Questions of national importance or of inter-state nature and the major and fundamental disputes will be decided by the National Tribunal. This Act abolishes the Labour Appellate Tribunal and widens the definition of a "workman" so as to cover technical staff and supervisory personnel whose emoluments do not exceed Rs. 500/- per month. The employer has to give at least 21 days' notice to the worker if he wants to introduce any change in respect of certain specified matters affecting his conditions of work.

The certifying officer and other authorities are empowered to examine the reasonableness or fairness of the standing orders. The worker can also apply for the modification of the standing orders to the labour court. During the pendency of a dispute the employer has been given the right to discharge or punish



an employee for any misconduct not connected with the dispute.

This Act is very much like the Bombay Industrial Relations Act. It contains very little of 'Giri approach' except one clause according to which both the parties can sign an arbitration agreement and refer the dispute to an arbitrator.

*Planning Commissions Views on Industrial Relations.* The Commission's view is that both, the employer and worker should work hand in hand to provide the economic needs of the community in the best possible manner. The worker has the right to strike but strikes and lockouts are out of place in an organised economy aiming at the securing of social justice and welfare of the masses. Disputes should be avoided and all questions should be settled through joint consultations. The works committee is some sort of a keystone of the structure of industrial relations as it is on the spot to settle all matters.

If the two parties fail to reach an agreement on any particular matter, the State may try to resolve the dispute through Conciliation Officers. If the matter still remains unsettled, resort may be had to compulsory adjudication which should lead to fair settlement based on natural and social justice.

In the Second Five-Year Plan also, there is great emphasis on industrial peace as it is very essential for the development of industry. It can be best achieved by the parties themselves. Great importance is attached to mutual agreements, conciliation and arbitration. Labour legislation and enforcement machinery for its implementation can be there to provide a suitable framework for employers and workers.

*Compulsory Arbitration versus Voluntary Conciliation.* The Industrial Disputes Act of 1947 had provision for both, the voluntary conciliation and compulsory arbitration of disputes. The first method was seldom used and mostly the method of compulsory adjudication was in use. As a result of this, the awards were binding on both the parties. But it always evoked violent criticism both from the employees and the employers. The workers' view is that compulsory arbitration encroaches on our right to strike against injustice and exploitation. Compulsory adjudication "cuts at the very root of Trade Union Organisation. Compulsory arbitration sees to it that no bond of unity and



strength is forged among the workers. It stands there as a policeman looking out for signs of discontent and at the slightest provocation takes the parties to a court for a dose of costly and not wholly-satisfying justice". Compulsory arbitration has created a greater rift between the two groups instead of fostering industrial harmony and permanent peace.

Mr. Giri, sometimes the Central Minister for labour, took a different view of this problem. At the Labour Ministers' Conference in New Delhi in February, 1953, he strongly pleaded for the settlement of industrial disputes not by compulsory adjudication but by mutual settlement and understanding between the employers and workers. He emphasised the voluntary conciliation of disputes. This is known as the "Giri approach". According to his idea, if the mutual negotiations fail, the matter may be referred to Conciliation Officers. If the latter are also not able to bring about a compromise, the parties should willingly refer the dispute to arbitration. In case of the failure of arbitration, the dispute may be referred to an umpire chosen by both sides. Thus, only voluntary conciliation and arbitration is to be used as far as possible and resort should be made to compulsory adjudication only in case of emergency and public utility services.

Giri approach for settling the industrial disputes is based on sound principles. A solution of the dispute through this method is likely to be cheerfully accepted by both the parties. An award of an industrial tribunal will evoke no body's loyalty because it is imposed by an outside authority. Even if both the parties have to accept it, they can stultify it through indirect tactics. For example, the labourers can resort to go-slow methods. Hence, the formal settlement of disputes is always defective unless both the groups become a party to it.

In the next place, the industrial tribunals generally consist of persons of high qualifications from judiciary. These persons know very little about the technical side of these industries and the conditions prevailing there. Hence they are not the proper persons to decide such disputes.

Compulsory adjudication also discourages the habit of collective bargaining. If the industrial disputes are often settled by outside authority, the labourers may not like to join trade unions and thus they will not be able to learn the method of collective bargaining,

Moreover, compulsory adjudication has enlarged the gulf between the labour and capital. It encourages the disputes and magnifies the differences. It is not conducive to industrial peace.

The method of compulsory adjudication is obviously very defective but the alternative method of conciliation and arbitration *i.e.*, Giri approach can be successful only under certain conditions such as (1) there should be well-organised unions which follow a constructive policy to improve the conditions of workers, (2) the unions should be recognised by the employers who should be prepared to negotiate with the workers on equal basis, (3) both the parties should form a machinery for arbitration in case they fail to come to an agreement. But these conditions do not exist at all in our country. There are well-organised unions in very few industries. The employers are not willing to negotiate with the workers. Under these conditions, collective bargaining and voluntary conciliation methods have not developed at all.

The defects of compulsory adjudication are obvious, yet this method saved the situation in 1946-47 when there was a great crisis in industries owing to strikes etc. It helped to introduce minimum wages and at least temporary industrial peace. Experienced judges, who are generally appointed for compulsory arbitration, are independent and impartial and know how to decide the disputed points. Now, there is more or less a peaceful atmosphere in industries, so we can think of some permanent method of voluntary conciliation in preference to compulsory adjudication.

### **Organisations for the maintenance of Peace in Industrial Relations.**

Under the Industrial Disputes Act 1947, nearly 779 works committees were functioning in central undertakings in 1957. The machinery at the centre mainly consists of the Indian Labour Conference, the Standing Labour Committee, the Industrial Committees and a few others. There is also the Labour Ministers Conference. The subjects discussed at the annual meetings of these bodies in 1957, included wage policy, discipline in industry, rationalisation, workers' education and workers' participation in management. The Industrial Committee on Plantations in its Session in January, 1958, decided to set up new industrial committees for the iron and steel, and chemical industries.



The administration of industrial relations in the central sphere undertakings rests with the Chief Labour Commissioner. To assist the Chief Labour Commissioner, a field organisation consists of Regional Labour Commissioners, Conciliation Officers and Labour Inspectors. In the same way, the State Governments have their own conciliation machineries, headed by the Labour Commissioners.

There is also the three-tier machinery for the adjudication of Industrial disputes—Labour Courts, Tribunals and National Tribunals—all with original jurisdiction. At Lucknow, an *ad hoc* National Tribunal is there. The two Industrial Tribunals are at Dhanbad and Nagpur. In addition, there is one *ad hoc* Industrial Tribunal at Delhi. The States have their own Tribunals and Labour Courts.

#### Workers participation in management.

The Indian Labour Conference considered in July, 1957 the recommendations of the study group which made a first hand study of the working of the scheme in certain Western countries. The Conference decided to experiment with management councils on a voluntary basis and appointed a tripartite committee to examine and consider further details of the scheme. The Committee has drawn up a list of establishments which agreed to co-operate and defined the scope and functions of the councils. At a seminar of a representative character organised in January-February 1958, a model agreement for the setting up of these councils was approved.

#### Industrial Disputes.

| Year          | Number of Disputes. | Number of workers involved (in thousands.) | Total number of man-days lost during the period in thousands). |
|---------------|---------------------|--|--|
| 1951          | 1,071               | 691  | 3,819  |
| 1952          | 963                 | 809  | 3,337  |
| 1953          | 772                 | 467  | 3,383  |
| 1954          | 840                 | 477  | 3,373  |
| 1955          | 1,166               | 528  | 5,698  |
| 1956          | 1,203               | 715  | 6,992  |
| October, 1957 | 190                 | 95   | 472  |

#### Questions and Projects.

1. Trace the growth of the trade union movement in India. What is its present position ?



2. Make a chart, giving the present position of trade unions. Different central organisations to which the unions are affiliated may be given along with the number of unions with total membership attached to each group. Number of unions with total membership under the Centre and States may also be indicated.
3. What is the legal position of the Trade Unions in India ?
4. Explain the strength and weakness of the labour movement in India.
5. What are the Internal obstacles to the development of the trade union movement in India ?
6. What are the causes of industrial disputes in India ? Describe the steps taken by the government to settle industrial disputes.
7. Discuss the causes of labour unrest in India in recent times. What measures have been adopted by the Government of India for the promotion of industrial peace ?
8. Why has there been a greater industrial unrest since the last World War ? What measures have been devised to bring about labour management co-operation ?
9. Describe the main features of the Industrial Disputes Act of 1947. What amendments have been made to this Act from time to time ?
10. Examine the scope of compulsory adjudication in the settlement of industrial disputes in India.
11. What is the well-known "Giri approach" for the maintenance of peaceful relations between the labour and the capital ?
12. Discuss compulsory arbitration versus voluntary conciliation.
13. What is the present-day machinery in the Centre and the States for the settlement of industrial disputes in our country ?
14. Prepare a chart about the various industrial disputes which have taken place in your State in 1957 or 1958, giving the number of disputes, the number of workers involved and total number of mandays lost. You may also analyse the causes of these disputes.
15. Visit the office of some trade unions organisation in your town and have a talk with the trade union workers there. Find out as to what are their day-to-day activities and judge for yourself the value of those activities.



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